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Nottingham City Council

NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 28 November 2014

Time: 10.30 am

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

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

Acting Corporate Director for Resources

Governance Officer: Catherine Ziane-Pryor **Direct Dial:** 0115 8764 298

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

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CITIZENS ARE ADVISED THAT THIS MEETING MAY BE RECORDED BY MEMBERS OF THE PUBLIC. ANY RECORDING OR REPORTING ON THIS MEETING SHOULD TAKE PLACE IN ACCORDANCE WITH THE COUNCIL'S POLICY ON RECORDING AND REPORTING ON PUBLIC MEETINGS, WHICH IS AVAILABLE AT WWW.NOTTINGHAMCITY.GOV.UK. INDIVIDUALS INTENDING TO RECORD THE MEETING ARE ASKED TO NOTIFY THE GOVERNANCE OFFICER SHOWN ABOVE IN ADVANCE.

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LB31 - Loxley House, Station Street, Nottingham, NG2 3NG on 19 September 2014 from 10.30am – 11.46am

Membership

Present	Absent
Councillor Mohammad Aslam	Councillor Georgina Culley
Councillor Michael Edwards	Councillor John Hartshorne
Councillor Thulani Molife (Vice Chair)	Councillor Toby Neal
Councillor Sarah Piper (Chair)	
Councillor Roger Steel	
Councillor Malcolm Wood	

Colleagues, partners and others in attendance:

Sue Sunderland	)	KPMG (External Auditors)
Richard Walton	)	
Shail Shah	-	Head of Internal Audit
Barry Dryden	-	Senior Finance Manager
Catherine Ziane-Pryor	-	Governance Officer

16 APOLOGIES FOR ABSENCE

Councillor Georgina Culley
Councillor John Hartshorne
Councillor Toby Neal

17 DECLARATIONS OF INTERESTS

None.

18 MINUTES

The minutes of the meeting held on 25 July 2014 were confirmed and signed by the Chair.

19 STATEMENT OF ACCOUNTS 2013/14

Barry Dryden, Senior Finance Manager, presented the Statement of Accounts report and circulated a revision at the meeting relating to 'prior year restatements' (paragraph 2.2.8), and 'Comprehensive Income And Expenditure Statements' (paragraph 3.1).

Sue Sunderland and Richard Watkin, KPMG Auditors, commented and responded to the Committee's questions as follows;

 (a)   KPMG is confident that an un-qualified opinion will be given;

(b)   the audit has gone well and there have been further improvements in the production of accounts;

(c)   key issues relate to the transition to the Oracle system which had not gone as smoothly as planned but Internal Audit had examined the system and, having identified some issues, mitigating controls were put in place. Actions required by Internal Audit had been quickly implemented and some permanent controls are now in place to ensure that processes are working more efficiently;

(d)   KPMG has undertaken additional testing on the mitigating controls and are sufficiently assured that these controls are adequate;

(e)   there will be an additional fee attached to the extra work but the final figure is not yet available and all such charges require examination and approval by the Audit Commission although the final charge can be challenged by the City Council;

(f)   with regard to the comment 'variable quality of paperwork', all requirements were met and ongoing improvements continue to be made.

KPMG suggested that the Internal Audit reports referred to by them are presented to this Committee. The Head of Internal Audit explained that following an uncertain period, an Interim Head of East Midlands Shared Services (EMSS) is now in post and fully engaged in addressing the issues identified and reviewing the whole organisation. An EMSS update is already planned for presentation at the next meeting on progress against the Internal Audit report produced last year.

With regard to the Icelandic Banks and the 'net cash loss', Barry Dryden explained that this is the simplest method to present the information as it would become incredibly complex and time consuming if possible rates of interest, including rise and falls during different timescales, were calculated to assess the potential interest which could have been achieved if funds had been placed with other organisations. Due to the number of variables, any figure calculated in this way could be challenged as misleading . Local Authorities are now far more risk adverse, it is highly unlikely that a similar situation would ever arise again, so there is little value in undertaking such work. It is noted that the external auditors have not expressed concern on this issue.

For valuations of heritage assets, such as the castle, expert opinion is sought and professional valuation assessments are required to be undertaken every 5 years.

There has been a change in the way that business rates are collected. Previously they were collected by the City Council as an agent and paid over in full to Central Government to be redistributed. Now the City Council accounts for the rates and a proportion is sent to Central Government. As a result a provision is now required bad debt on business rates where previously this was accounted for by Central Government.

RESOLVED

(1)   to note the external auditors' 'Report To Those Charged With Governance';

(2)   for the Statement Of Accounts, as updated at the meeting, to be approved and signed by the Chair of the Audit Committee;

(3)   for the Draft Management Representation Letter to be approved and signed by the Chair of the Audit Committee;

(4)   for the Internal Audit report referred to by KPMG to be presented to this Committee with an update by EMSS officers on the recommendations;

(5)   for the Lead Financial Officer to attend the meeting to answer the Committee's questions on the Oracle system;

(6)   for the Senior Finance Manager to meet with Councillor Michael Edwards and Councillor Roger Steel, to discuss the Icelandic Banks investments in more detail.

20   AUDIT AND ACCOUNTABILITY ACT 2014

Barry Dryden, Senior Finance Manager, presented the report which outlines the Department for Local Governments' proposals for a new local audit framework, including significant changes in the process for future appointments of Local Government Auditors, and a reduction in the timescales for the approval of the accounts and for public inspection and objections to the accounts.

Resolved to note the Government's proposals for appointing auditors and changes to the Accounts and Audit Regulations 2011.

21   URGENT ITEM - ANNUAL GOVERNANCE STATEMENT 2013/14

The Chair of the Committee is of the opinion that this item, although not included on the agenda, should be considered as a matter of urgency in accordance with section 100 B (4) (b) of the Local Government Act 1972, as the publication of an Annual Governance Statement alongside the Statement of Accounts is required by the Accounts and Audit Regulations 2011.

Shail Shah, Head of Internal Audit, presented the report which remained unchanged since the Interim Annual Governance Statement 2013/14 report was submitted to the 25 July 2014 meeting the Committee. No new significant items of concern have been identified. It is noted that this report is a summary and a more detailed treasury management report will be presented to this Committee at a future meeting.

In response to the Committee's query regarding 'Single Status' listed under 'Issues Worthy of Noting', the Head of Internal Audit explained that Single Status has been a massive process and it was appropriate for provision to be made. Although the Single Status initiative has now been completed, the Committee's approval will be required before the issue, which was previously considered a potential concern, can be formally 'closed off'.

RESOLVED to approve the Annual Governance Statement (AGS) 2013/14 as set out in Appendix 1 to the report.

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Annual Audit Letter 2013/14

Nottingham City Council

October 2014

Contents

The contacts at KPMG in connection with this report are:

Sue Sunderland
Director
KPMG LLP (UK)

Tel: 0115 945 4490
sue.sunderland@kpmg.co.uk

Richard Walton
Manager
KPMG LLP (UK)

Tel: 0115 945 4471
richard.walton@kpmg.co.uk

Kay Meats
Assistant Manager
KPMG LLP (UK)

Tel: 0115 945 4485
kay.meats@kpmg.co.uk

This report summarises the key findings from our 2013/14 audit of Nottingham City Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2013/14 financial statements and the 2013/14 VFM conclusion.

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VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2013/14 on 26 September 2014. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.
	To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.
VFM risk areas	We identified one significant risk to our VFM conclusion in respect of financial standing; relating to the continued financial pressures which require significant ongoing reductions in net expenditure. We considered the arrangements you have put in place to mitigate this and concluded that arrangements for maintaining financial resilience, as least in the short term, are sound.
	The Council has a good track record in delivering against its overall savings targets. However continuing to deliver such targets year on year is clearly demanding, and will require difficult decisions to be implemented, and close monitoring of the results including the impact on key services.
Audit opinion	We issued an unqualified opinion on your financial statements on 26 September 2014. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Authority's Group, which consists of the Authority itself and it's six subsidiaries.
Financial statements audit	Our financial statements audit did not identify any material audit adjustments. A small number of non-material adjustments were identified and these were subsequently amended in the final version of the financial statements.
	Our audit testing confirmed that weaknesses previously identified in relation to controls around accounts payable and payroll have been addressed by the move to new Oracle financial system.
	However, Internal Audit identified a number of other control weaknesses in respect of the Oracle financial system provided through EMSS. As a consequence it was necessary for us to undertake additional work to obtain sufficient assurance that these control weaknesses did not have a material impact on the financial statements.
Annual Governance Statement	We reviewed your *Annual Governance Statement* and concluded that it was consistent with our understanding.

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	We raised one high priority recommendation as a result of our 2013/14 audit work in respect of the control weaknesses identified at EMSS. This is detailed in Appendix 1 together with the action plan agreed by management.
Certificate	We issued our certificate on 3 October 2014 following completion of our work on Whole of Government Accounts. The certificate confirms that we have concluded the audit for 2013/14 in accordance with the requirements of the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.
Audit fee	Our planned audit fee for 2013/14 was £228,420, excluding VAT. We are currently in the process of agreeing an additional fee of £9,999 for additional work that was required in respect of control weaknesses at EMSS and £1,070 relating to national changes in arrangements for National Non Domestic Rates (NNDR) with the Audit Commission. Further detail is contained in Appendix 3.

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This appendix summarises the high priority recommendation that we identified during our 2013/14 audit, along with your response.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	**Control Weaknesses at EMSS** As reported to you by Internal Audit, there are weaknesses in the operation of controls by EMSS in the following systems: ▪ Payroll ▪ Accounts Payable ▪ Accounts Receivable Whilst we have confirmed through our additional testing that these have not had a material impact on the financial statements the weaknesses remain and need to be addressed. **Recommendation** Implement the recommendations of Internal Audit in full as soon as possible.	The weaknesses raised by Internal Audit were identified through joint work with Strategic Finance and EMSS. They were mitigated during the year through, for example, manual interventions and system development. This is inefficient, however, and the EMSS partners have embarked upon a comprehensive improvement programme designed to evaluate and correct all processes in use within these systems. The objectives of this programme include the delivery of the Internal Audit recommendations, although they will be exceeded by the level of improvement being delivered. The issues raised by Internal Audit which relate to the availability of data have already been resolved.

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

2014

January

February

March

April

May

June

July

August

September

October

November

External Audit Plan (February 2014)

The *External Audit Plan* set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2014)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2014/15 financial year.

Auditor's Report (September 2014)

The *Auditor's Report* included our audit opinion on the financial statements, our VFM conclusion and our certificate.

Certification of Grants and Returns (February 2014)

This report on summarised the outcome of our certification work on the Authority's 2012/13 grants and returns.

Report to Those Charged with Governance (September 2014)

The *Report to Those Charged with Governance* summarised the results of our audit work for 2013/14 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2014)

This *Annual Audit Letter* provides a summary of the results of our audit for 2013/14.

This appendix provides information on our final fees for 2013/14.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2013/14 planned audit fee.

External audit

The planned fee for the 2013/14 audit of the Authority was £228,420. A proposed additional fee of £11,069 is subject to final determination by the Audit Commission. The reasons for the variance are:

■ in order to deliver our 2013/14 audit opinion there were two elements of our work that we had previously carried out while certifying LA01 (the NNDR3 return), and relied upon for our opinion audit. In 2013/14, as a result of there being no certification of the NNDR3 return, we have had to carry out this work as additional procedures to our audit opinion at a cost of £1,070; and

■ additional testing to determine the impact on the financial statements audit of control weaknesses at EMSS at a cost of £9,999.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2013/14* which we are due to issue in February 2015.

Other services

We also charged £7,000 for a reasonable assurance review of the 13/14 Nottingham Technology Grant, £3,500 for a reasonable assurance review of the 12/13 School Centred IT Training Grant and £3,000 for the 12/13 HCA Decent Homes Grant. This work was not related to our responsibilities under Audit Commission's *Code of Audit Practice*.

External audit fees 2013/14 (£'000)
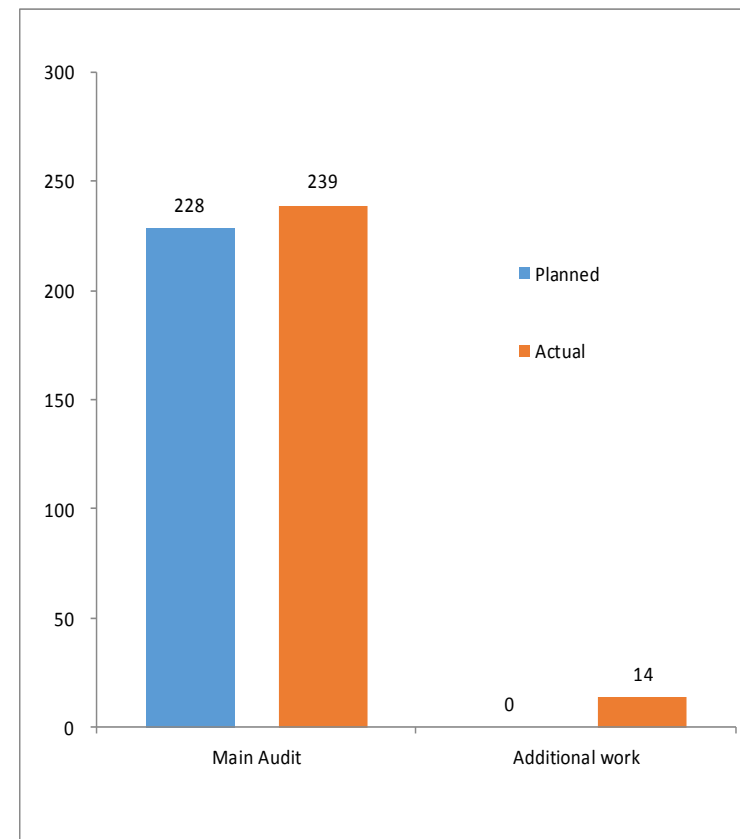
KPMG

cutting through complexity ™

AUDIT COMMITTEE 28 NOVEMBER 2014

Title of paper:	**Ombudsman Annual Letter**	
Director(s)/ Corporate Director(s):	**Mark Gannon Director of Customer Access**	**Wards affected: All**
Report author(s) and contact details:	Lynne North Customer Liaison Officer Lynne.north@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1 Councillors are asked to note the contents of this report		

1. REASONS FOR RECOMMENDATIONS

Complaints are an important feedback mechanism for us to help influence service Improvement and therefore to increase citizen satisfaction.

This year the annual letter is in a different format again to last year as the LGO have undergone a lot of changes. To enable Councillors and officers to further understand the statistics please see the tables in Appendices 1-4. When looking at our performance alongside other Core Cities we are again this year the second best performing authority.

This is a demonstration that we are improving year on year our communications with the LGO. This year we have again maintained our response rates worked with the LGO in a timely manner.

We continue to have a good working relationship with the LGO teams which is one of the tools which enables us to provide a better service to the citizens of Nottingham.

We have now been using the Have Your Say corporate system for recording compliments, comments & complaints for 2 years, which is giving us invaluable information of how to improve our services and responses to our citizens although there are further opportunities to understand the data from this key feedback mechanism so we can continue to identify service improvement opportunities.

2.   BACKGROUND

Nottingham City Council is still the responsible body for complaints about housing provided by Nottingham City Homes and their figures are included in our Annual Letter. The Ombudsman service has now been split into two separate services of responsibility; one covering housing and one section cover all other cases

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

4.   PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

LGO Annual Letter.

Appendix One: LGO Letter

7 July 2014

By email

Mr Ian Curryer
Chief Executive
Nottingham City Council

Dear Mr Ian Curryer

Annual Review Letter 2014
I am writing with our annual summary of statistics on the complaints made to the Local
Government Ombudsman (LGO) about your authority for the year ended 31 March
2014. This is the first full year of recording complaints under our new business model so
the figures will not be directly comparable to previous years. This year's statistics can be
found in the table attached.

A summary of complaint statistics for every local authority in England will also be
included in a new yearly report on local government complaint handling. This will be
published alongside our annual review letters on 15 July. This approach is in response
to feedback from councils who told us that they want to be able to compare their
performance on complaints against their peers.

For the first time this year we are also sending a copy of each annual review letter to the
leader of the council as well as to the chief executive. We hope this will help to support
greater democratic scrutiny of local complaint handling and ensure effective local
accountability of public services. In the future we will also send a copy of any published
Ombudsman report to the leader of the council as well as the chief executive.

Developments at the Local Government Ombudsman
At the end of March Anne Seex retired as my fellow Local Government Ombudsman.
Following an independent review of the governance of the LGO last year the
Government has committed to formalising a single ombudsman structure at LGO, and to
strengthen our governance, when parliamentary time allows. I welcome these changes
and have begun the process of strengthening our governance by inviting the
independent Chairs of our Audit and Remuneration Committees to join our board, the
Commission for Administration in England.
We have also recruited a further independent advisory member.

Future for local accountability
There has been much discussion in Parliament and elsewhere about the effectiveness of
complaints handling in the public sector and the role of ombudsmen. I have supported
the creation of a single ombudsman for all public services in England. I consider this is

the best way to deliver a system of redress that is accessible for users; provides an effective and comprehensive service; and ensures that services are accountable locally. To contribute to that debate we held a roundtable discussion with senior leaders from across the local government landscape including the Local Government Association, Care Quality Commission and SOLACE. The purpose of this forum was to discuss the challenges and opportunities that exist to strengthen local accountability of public services, particularly in an environment where those services are delivered by many different providers.

Over the summer we will be developing our corporate strategy for the next three years and considering how we can best play our part in enhancing the local accountability of public services. We will be listening to the views of a wide range of stakeholders from across local government and social care and would be pleased to hear your comments.

Yours sincerely

Dr Jane Martin
Local Government Ombudsman
Chair, Commission for Local Administration in England
Within the core cities we are the second best performing authority

Local authority report – Nottingham City Council

For the period ending – 31/03/2014

Complaints and enquires received

Local authority	Adult Cars services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services & public protection and regulation	Highways and transport	Housing	Planning and development	Total
Nottingham City	11	15	13	31	11	9	18	7	115

Decisions made

Local authority	Detailed investigation carried out		Advice given	Closed after internal enquires	Incomplete/invalid	Referred back for local resolution	Total
	Upheld	Not upheld					
Nottingham City	14	30	7	29	4	40	124

Appendix 2: CIFA Nearest Neighbour Analysis

This table shows how Nottingham City Council performs within the CIPFA Nearest Neighbour Model based on cultural,

Council	Complaints upheld	Complaints 2014	Complaints 2013	Population
Nottingham City	14	115	53	308,735
Salford	13	63	40	237,085
Gateshead	9	69	38	200,153
Norwich	2	49	25	134,264
Lincoln	2	15	10	94,588
Leicester City	15	118	66	331,606
Wolverhampton	5	96	52	250,970
Newcastle	3	62	36	282,442
Manchester City	16	219	79	510,772
Sheffield	16	174	79	557,382
Liverpool	21	182	90	469,690

Appendix 3: Comparison with Core Cities

This table shows how Nottingham City Council performs within the **Core Cities**, although the reporting methodology is different this year we are still the second best performing authority. Glasgow has now become one of the core cities but it isn't regulated by the LGO. Glasgow Council comes under the Scottish Public Services Ombudsman and they report differently so we are unable to add their statistics to this list.

Council	ONS Mid-Year Estimates 2012	Complaints Upheld	Complaints 2014	Complaints 2013
Newcastle City	282,442	3	58	36
Nottingham City	308,735	11	115	53
Manchester City	510,772	16	216	79
Sheffield City	557,382	16	166	79
Bristol City	432,451	24	150	86
Leeds City	757,655	29	218	150
Liverpool City	469,690	32	169	90
Birmingham City	108,5417	82	541	227

Appendix 4: LGO Final Decisions

The table below shows cases closed 2013 and 2014 and the final decisions from the LGO.

Department	Section	Not to investigate 2013	Not to investigate 2014	No Maladministration 2013	No maladministration 2014	Maladministration 2014	Premature 2013	Premature 2014	No jurisdiction 2013	No jurisdiction 2014
NCH		6	2	1	1		6	2	1	
Development	Planning	2	3	1	2				1	
Development	Property	1		2				1		
Development	Housing	1	1			2		1		
Resources	Council Tax	2	4	1	2		2	2	1	
Resources	Legal		1		1		1	1		
Communities	Community Protection	2	2	1	2			2	1	1
Communities	Sports Culture & Parks	1	1							1
Communities	Neighbourhood Services	1	1					1		
Children & families	School Admissions	4		1	12					
Children & families	Adult Residential Services					1	1			
Children & families	Access & Crisis Team	1								
Adults and children	Social care teams		7		7	1		5		1
Communities	Libraries				3					
Resources	HR				1					
Children & Families	Family community teams				1					
Children & families	**Contract Compliance & VFM**				1					

AUDIT COMMITTEE – 28 November 2014

Title of paper:	**Progress in implementing the Performance Management Framework for Nottingham City Council**
Director(s)/ Corporate Director(s):	Angela Probert, Strategic Director Organisational Transformation	**Wards affected:** All
Report author(s) and contact details:	Chris Common, Organisational Planning & Performance Manager 0115 8763435 chris.common@nottinghamcity.gov.uk
Other colleagues who have provided input:	Richard Henderson, Head of Transformation 0115 8763443 richard.henderson@nottinghamcity.gov.uk

Recommendation(s):	
1	That the Committee note the progress made since the Performance Management Framework (PMF) was adopted in April 2014.

1. REASONS FOR RECOMMENDATIONS

Reporting progress since adoption of the PMF shows the Council can demonstrate good governance of its services with the Audit Committee's oversight of this.

2. BACKGROUND

2.1. The PMF was approved for adoption by the Audit Committee on 28 February 2014. A request was made at that meeting to report back to the committee on the progress made six months following the initial implementation of the framework.

2.2. As outlined in the original report, the PMF was revised as part of the Good to Great ambitions for the City and the establishment of a strong performance culture which places citizens at the heart of everything the Council does. The PMF was approved by Corporate Leadership Team (CLT) on 21 January 2014.

3. Adoption and Implementation

3.1. The key to the success of the PMF as a driver for achievement and improvement is for it to be embraced as an integral part of our day-to-day activity. To this end the Organisational Planning & Performance (OPP) team worked with colleagues across the Council to embed and develop the PMF to ensure that it helps to deliver our ambitions and the best outcomes for the City and its citizens. This work included:

- A series of dedicated lunchtime learning events to introduce the PMF to managers. These were well attended by a good range of managers from across the Council.
- A series of Performance Management training workshops were held to introduce and refresh managers in relation to the key concepts and principles of performance management based on those outlined in the PMF.

- Support to services to develop their use of the Covalent performance management system. Effective use of the system relies on the service having good performance management principles in place e.g. links to key strategic objectives embodied in the PMF.
- Dedicated support and advice to services by the OPP team to develop good practice in performance management including improvements to business planning encompassed in the PMF.
- Availability of the PMF on the Council's intranet in a number of formats.
- In depth briefing sessions were conducted with departmental Executive Officers and performance leads to explain the PMF and how to optimise its use to allow them to promote it with in their departments.
- Inclusion of the PMF in the new employee starter/induction pack.

4. Assessing Progress

4.1. To date, nearly 100 managers have attended one of the performance management training workshops with nearly 2/3rd of attendees reporting their skills in performance management had improved by attending the course. Three months following their training, attendees were contacted again and 63% report that they have been able to use their skills to positively influence the performance culture of their service.

4.2. To further gauge the effectiveness of the promotional and support work undertaken in the last 6 months, consultation with key officers and managers has been undertaken including an online survey of all managers in October.

4.3. Overall, managers reported good levels of awareness and implementation of the PMF in their service areas. This was relatively consistent across the Council although in the Children's & Adults department implementation of key elements, such as the use of Covalent, was not as extensive.

4.4. A high proportion of respondents reported that they had the necessary skills to implement the PMF. This is very encouraging as it demonstrates that the Council managers feel confident in having key abilities to more effectively manage their services which will have a positive effect on what is delivered to our citizens.

4.5. Some comments were received that the PMF is hard to find on the intranet and steps will be taken to address this as part of the review of the intranet pages generally.

4.6. **Survey Results**
- 87 responses
- 69% were aware of the PMF principally via the intranet and attendance at a briefing session. Managers who responded who were most aware were in the Resources' department
- 85% said they had applied the principles in their service area. Again, Resources' managers reported the highest levels of implementation
- 93% reported having the necessary skills to implement the PMF
- 65% reported it had a positive effect on the service.

4.7. **Consultation**
In addition to the survey, a number of managers were directly consulted on their views and the following is a selection of the comments received:

"*We [Traffic] follow the various corporate systems for the PMF using the respective electronic systems such as Covalent.*

This has the advantage that we have a record of the current status and response and helps us review feedback and issues. This is fed into the relevant corporate plans and processes including our own service area procedures".

"*I would say that the principles of the PMF have been implemented as far as possible within my area [Housing Strategy]. We have an annual team plan which has as its overarching theme the Council Plan objective "Nottingham has a good mix of housing". It will also naturally link to other objectives such as those for fuel poverty in the Nottingham Plan and Council Plan. Each member of the team has been given responsibility and accountability for the actions within the team plan via their Performance Appraisals. We are working towards getting the team plan on to Covalent and using this as a tool within team meetings to review progress and deal with issues or barriers to progress where necessary*".

However a manager in the Children's & Adults department said that *'benchmarking is done regularly but target setting is not. Performance [monitoring] is done on a weekly/monthly/quarterly basis (depending on service areas) which in turn is discussed at departmental team meetings based on those timelines. Covalent isn't used for the majority but Adult Assessment do use it. The PMF isn't something that is regularly referred to.'* There clearly is still some work to do in this particular department and officers will focus attention on specific support and advice to colleagues in this department.

5. **Next Steps**
The six months since adoption of the PMF would appear to have resulted in good awareness and subsequent implementation of its principles by managers in the way they manage their services and more work is to be done to build on this positive start. This will include:

- Further learning events (next due in December 2014)
- Continuation of performance management training workshops (to be held at least four times each year)
- Targeted support and advice by the OPP team to areas where awareness and implementation is not as high as others e.g. Children's & Adults
- Improvements to the intranet to ensure easier access to the PMF and associated supporting documents
- Further revisions to the business planning process to embed the PMF principles (for introduction to coincide with the next Council Plan in 2016).

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

Performance Management Framework 2014 – attached.

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

A revised Performance Management Framework for Nottingham City Council – Report to Audit Committee, 28 February 2014

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Nottingham City Council Performance Management Framework

Context

Introduction

Our performance management framework (PMF) seeks to drive improvement and achieve the best results for Nottingham and its citizens. It enables a consistent, streamlined and joined-up approach to all performance activity throughout the organisation. The PMF also provides some of the evidence and information needed to effectively commission and deliver services.

The Executive Board and Corporate Leadership Team (CLT) are pursuing the *Good to Great* ambitions for the City and embedding a strong performance culture which places citizens at the heart of everything the Council does. This presents the ideal time to refresh our long-standing performance framework and ensure that it will help us to achieve our key priorities for the City.

This new PMF sets out the high level approach to performance management, ensuring that all are:

- clear about what to achieve, by when and by whom;
- focusing resources and action on the right outcomes;
- aware of how things are going – successes and where things need to improve;
- reporting on progress - to both internal and external audiences;
- able to quickly access effective support.

Each department, service and team will need to apply and supplement the framework in ways that best suit their context and needs. Joining things up and working together as one-council alongside our external partners will help achievement of the Council's and City's ambitions.

Transparency and Challenge

Councils no longer have formal external assessment of overall performance. Alongside any existing publication of results and performance, a transparent system of self regulation and accountability is important to objectively demonstrate how things are going. The City Council is using the Local Government Association's (LGA) 'Taking the Lead' approach for sector lead improvement and a corporate 'peer challenge' is being considered.

Elements of adult and children's social care and education services are still externally assessed and inspected by the Care Quality Commission (CQC) and Ofsted.

Organisational Performance Management Approach

The Performance Management Cycle

The PMF's four cyclical and continuous stages – **ANALYSE - PLAN - DO – REVIEW / REVISE** - reflect those used in our commissioning activity.

Figure 1

ANALYSE

Understand, assess and analyse need, users and the market

PLAN

VISION - Where do we want to go?
PRIORITIES - What needs to be done?
ACTIONS - How we are going to do it?
ACCOUNTABILITIES – who is responsible for what and where does the buck stop?

Performance Management Cycle

DO

GET IT DONE - Implement the plans

REVIEW / REVISE

MONITOR - Have we done it?
CHALLENGE – why is performance as it is?
REVIEW - How did we do? What did we do well/badly?
REVISE - What should we do differently?

Each of these four phases is explained on the following pages.

ANALYSE – *Understand, assess and analyse need*

Understanding the needs of users, citizens and their environment is critically important. This is analysed in the context of:

- The Council Plan which is informed by: the majority political group's manifesto, Central Government policies and public opinion;

- Current **legislation** and any **regulatory** considerations;

- Nottingham's overarching community strategy - The Nottingham Plan;

- **Citizen demographics** – including age profile, gender and ethnicity. The Nottingham Insight webpage provides more information including datasets such as the Census and Indices of Deprivation;

- Wider emerging **social trends** such as increased joblessness;

- **Customer satisfaction** and feedback about how services are being provided along with views on what is important to be delivered. The Council's approach to working with/interacting with citizens and customers is set out in the Citizen First programme. Customer satisfaction details appear on the Nottingham Insight webpage;

- **Past performance** is also an important when considering how we are progressing, as it allows services to identify and analyse any patterns or trends

- **Internal workforce composition** - such as demographics, skills and talents, engagement etc. Information appears on the Council's intranet.

An evaluation of the impact on the service(s) of **change** should be undertaken after implementation to determine return on investment, benefits and learning. Services may have experienced several changes and analysing their impact (eg: drivers, investments and savings) is beneficial.

PLAN - *Setting the vision and long term ambitions*

Figure 2 shows how the PMF elements link strategic plans to individual colleague objectives in a *golden thread*. At each level, SMART* performance indicators (PIs) and key actions are used to measure and track delivery:

Majority Political Group Manifesto	National Policies	Public Opinion (inc. 'Citizen First')	The Nottingham Plan to 2020

Council Plan (4 year)
Our purpose, priorities and values

Departmental Plans (optional)
Set out how each Department will help deliver the Council Plan priorities

Directorate Business Plans (4 year)
Set out how each director will help deliver the Council Plan priorities. Integrated with financial and workforce planning and risk management

Major Capital Programmes
e.g. NET^, Housing

Service Level Plans (optional)
Set out how each service will help deliver the directorate and Council Plan priorities

Individual Objectives (Performance Appraisals)
Demonstrate how each person contributes to the delivery of their team/service/directorate/ department plans and ultimately the council-wide objectives

* SMART = **S**pecific, **M**easurable, **A**chievable, **R**elevant, **T**imed
^ NET = Nottingham Express Transit ('Tram')

The Council Plan

The Council's current purpose, priorities and values are set out in the Council Plan 2012-15. This outlines key priorities and what will be done to meet them. It also shows how the Council contributes to the strategic priorities set out for the City in The Nottingham Plan. It formally embraces the leading political group's manifesto into Council policy.

The Council Plan takes into account various environmental factors including the national economic picture, the City's demographics and government policies. It is also informed by citizens' views through the Citizen First strategy, which drives good customer service and interaction.

The Medium Term Financial Strategy (MTFS) sets out how resources will be aligned to deliver the Council Plan objectives and the annually updated Medium Term Financial Plan (MTFP) translates the objectives in the various levels of plan into the detailed budget.

Directorate Business Plans

Each service directorate produces a **three year** business plan. Each plan identifies a set of SMART key actions, which contribute to the delivery of the Council Plan. Achievement is measured using PIs and a risk assessment/plan. These plans also feature a budget, workforce plan and risk management plan to ensure that the objectives can be delivered in the current and future context.

Major Capital Programmes

Where a major programme is managed separately due to its size and complexity e.g. Nottingham Express Transit (NET) development or Housing Strategy, this can relate directly to objectives in the Council Plan and so warrants a separate management and reporting stream outside the directorate business plans.

Optional Plans

Some departments choose to have a **departmental plan** setting out the high level themes, approach and "tone" for their work. Some services and teams may choose to create more detailed **operational level plans** to help focus activity and increase the likelihood of achievement.

Personal Objectives

Each colleague has an annual performance appraisal meeting with their line manager at which personal objectives and milestones for the year ahead are set. These show how each person contributes to their directorate plan (and therefore the Council Plan objectives). They may also show how their work links to their service level plan.

Accountability - Everyone at the Council plays a part in the PMF. **Table 1** overleaf shows how these responsibilities are distributed:

Councillors	**Full Council**	
	• Approve the overall priorities and budget for the Council.	
	Council Executive	
	• Make budget recommendations to Council and approve the Housing Revenue Account (HRA)	
	• Oversight of Council Plan priorities and manifesto commitments (which are embraced within Council policy).	
	Audit Committee	
	• Oversight of corporate governance - internal control, risk management and financial reporting	
	• Approve and critically appraise application of the PMF.	
Senior Management	**Corporate Leadership Team (CLT)**	
	• Strategic responsibility for achieving Council priorities	
	• Oversight of corporate performance, taking necessary action and focussing resources	
	• Deliver the MTFS and MTFP.	
	Corporate Directors	
	• Deliver departmental objectives	
	• Accountable for their department's overall and operational performance	
	• Help deliver the Council's strategic priorities	
	• Deliver within budget and strive to achieve better value for money/reduce net cost.	
	Directors/Heads of Service	
	• Deliver service objectives	
	• Accountable for their service's operational performance	
	• Develop colleagues and teams to ensure they deliver their objectives and contribute to the Council's strategic objectives	
	• Deliver services on time, to standard and within budget and identify and implement net cost reductions.	
Colleagues	**Organisational Planning and Performance (OPP) Team**	
	• Champion and administer the PMF and Covalent performance management IT system	
	• Drive performance improvement through the development of innovative initiatives such as the use of Covalent	
	• Act as a corporate centre of excellence for performance management	
	• Support CLT on performance management.	
	Departmental Performance Leads	
	• Ensure corporate performance information is provided through Covalent and the system is optimised to report and manage performance in each department.	
	Departmental CDB 'Champions'	
	• Work collaboratively with OPP to ensure the PMF, Covalent and other key performance management processes and initiatives are understood and adopted by managers in each department	
	• Work collaboratively with OPP to share best practice and embed a consistent performance management culture.	
	All Colleagues	
	• Achieve their personal objectives and contribute to those of their team/service/department	
	• Take responsibility for individual performance and development	
	• Understand how they contribute to the Council Plan objectives.	

DO - *Deliver the objectives, implement the plans*

The Council's plans are live documents which set out what will be done in the period ahead. They are updated to reflect emerging issues such as citizen or regulator feedback and any political changes at central or local level and ensure they remain focussed on delivering outcomes.

Colleague Competencies
The Council uses a set of nine competencies in a Competency Framework against which each colleague is assessed as part of their annual performance appraisal. This is supported by the colleague performance management policy.

The Competency Framework outlines that managers ensure that the PMF is used effectively within their services and ensure that it links to their risk and financial management activities. Most importantly, managers must demonstrate that they manage performance and base decisions on reliable performance information and other insight.

REVIEW / REVISE – *monitor, challenge, review and revise*

Covalent
Covalent is the Council's system to collect, report and analyse performance across the whole organisation, which enables directorates to manage their performance information and take action where required. Covalent is a business and performance management software tool used to provide consistency and effectiveness in the approach to performance and business management at any required level. For example, it can be used to provide up-to-date performance information in the various performance meetings and forums.

Departmental Performance Review
Each department's leadership team convenes a dedicated monthly and/or quarterly meeting to consider their performance in connection with their departmental and Council Plan priorities. Covalent-generated dashboards and reports should be used wherever possible to ensure information being considered is consistent with all areas of the Council. The functionality of the system enhances the discussions and considerations.

Corporate Performance Review
Each member of CLT is able to consider performance in 'real time' through a tailored Covalent-generated dashboard or report specifically for their department which is particularly focussed on the Council Plan and its agreed set of Council priorities. This supplements the performance 121 meetings held with each of their directors and associated portfolio holder(s), which occurs at least quarterly and ahead of the CLT performance discussion.

The OPP Team support the quarterly **Corporate Delivery Board (CDB).** This comprises CLT and the Council Leader. CDB focuses on reviewing and challenging overall corporate performance, aligning resources to improve areas of greatest need and checking that capital and transformation programmes are achieving change and driving improvement in the right way.

Councillors and Performance

Each Executive councillor is able to consider performance in 'real time' of their particular portfolio/area of interest through a tailored Covalent generated dashboard or report.

A dedicated Council Executive Panel (Executive + CLT) meets quarterly to solely discuss Council Plan performance within 2 – 3 weeks of CDB. CLT are therefore able to bring issues directly to the Executive's attention.

Communicating Performance

The Council is committed to transparency and citizens are able to access up-to-date performance information on the Open Data Website. Information is also included in the citizens' newsletter; The Nottingham Arrow - published four times a year. A more comprehensive annual report on overall performance is published each summer and discussed at a meeting of the full Council.

Performance headlines and the achievement of any important milestones are routinely reported through the official Twitter account and Facebook page.

Each quarter, important performance issues are published in the internal newsletter - Impact - to raise colleagues' awareness. Covalent-generated reports are also posted on the intranet.

Table 2 shows the sequence of collation and consideration of performance following the end of each quarter:

WEEKS AFTER QUARTER END	1	2	3	4	5	6	7	8
Previous quarter performance info collated/collected on Covalent by services	●	●	●					
Departmental Leadership Teams (DLT) performance review meetings			●	●	●			
Corporate Directors performance discussions with Portfolio Holders			●	●	●			
Corporate Delivery Board (CDB)					●	●		
Council Executive Panel/Board						●	●	
Performance information published (intranet/plasmas/internet/Impact)							●	●

Performance Review and Challenge

Performance information needs to be actively used to achieve outcomes and drive improvement. The OPP team provide corporate support and objective challenge to ensure that the Council achieves the best it can for the City at every level.

Challenge and review occurs at all levels in the organisation and includes the review of past performance, learning lessons, benchmarking and looking ahead to what needs to be done next. **Figure 3** illustrates the regular sequence of review and challenge that takes place.

Figure 3: Review and Challenge Sequence

Colleagues	Service Teams, Sections, Directors	Departments	Organisational Planning and Performance Team	Corporate Directors	Councillors
Performance Appraisals (PA) with manager to review progress against objectives	Regular meetings to review progress against Strategic Business and Operational Plans	DLTs meet at least quarterly to review performance progress against departmental and Council Plan priorities	Challenge and support departments to make continual performance improvement through adoption of best practice performance management and the PMF.	CDB reviews Council Plan performance quarterly	Executive Panel meets to consider performance against key objectives each quarter
Formal PA review (6 months and year end) supplemented by 121s in between				Corporate Directors and portfolio holders meet regularly to discuss progress	Portfolio Holders meet Corporate Directors monthly/quarterly to discuss performance

Other Forms of Challenge

The other forms of review that focus on particular service areas at certain times are shown in **Table 3**:

WHAT	DETAILS
Consultations and surveys	There is a wealth of detailed feedback from specific surveys and consultation exercises available. Information is gleaned from our annual citizens' survey, public debates and local councillor surgeries; much of this is available from the Nottingham Insight web site.
Complaints, Compliments and Comments	The public are encouraged to feedback to the Council on the services we provide through the Have Your Say facility. Each directorate is provided with a monthly update of any comments, complaints or compliments to inform their decision making.
Statutory Inspections	The central inspection regime is much reduced but some statutory inspections remain: - Adult and Children's Social Care - Care Quality Commission - Education - Ofsted - Youth offending - Her Majesty's Inspection of Probation - Financial probity, value for money and governance - external auditors (currently KPMG, as at December 2013)
Sector Led Improvement	LGA Peer Challenge

Performance Benchmarking

Comparing the City Council with other providers and agencies helps it to understand the wider context, provides potential to learn from others and to achieve more. There are several benchmarking tools and services used to compare performance and costs such as those provided by organisations such as the Chartered Institute of Public Finance Association (CIPFA), the Society of Information Technology Managers (SOCITM) and the Department of Education's Local Area Initiative Tool (LAIT).

To support councils in comparative and benchmarking exercises, CIPFA's Nearest Neighbours Model adopts a scientific approach to measuring the similarity between authorities. Services are recommended to use the model to select benchmarking comparators. In September 2011 (latest figures), the top 10 authorities closest to Nottingham City Council according to the model were (in descending order of similarity):

1. Newcastle-upon-Tyne 2. Salford 3. Liverpool 4. Gateshead 5. Manchester 6. Norwich 7. Sheffield 8. Lincoln 9. Leicester 10. Wolverhampton

Revision

Plans need to be continually reviewed and potentially revised as communities change, government policies evolve and new needs and priorities emerge as public expectations and requirements constantly evolve.

The **Council Plan** is annually **reviewed and refreshed to focus action on its delivery**. Necessary changes are fed into all level of plans. Any potential amendments to plans are reported to and discussed by councillors at the start of the year in order for the changes to be agreed and implemented. **Directorate Business Plans** PIs, actions and risks within each directorate's business plans are also **reviewed annually**.

PMF Review

The **Audit Committee** holds overall responsibility for the PMF. This demonstrates the Council's commitment to sound and effective corporate governance and ensures a high profile for internal control, risk management and financial reporting. The PMF is annually reviewed by the OPP to ensure it remains fit for purpose. This review takes account of the current internal and external environment and looks ahead to future changes.

Risk Management

Risk management is a complementary activity to performance management which help colleagues to deliver all kinds of objectives. Risk management helps anticipate uncertain future events; risks - so that they can be avoided or minimised and opportunities – so that they can be optimised. Actions are then agreed to manage the likelihood and/or the impact of the risk occurring. Performance management helps to identify risks, highlights when risks are deteriorating and provides mechanisms to drive effective risk management activity. For further details - risk management

Transformation

The Council works hard to shape outcomes that are focused on meeting the needs of its citizens through the commissioning and provision of high quality, value for money services that are sustainable and fit for purpose now and into the future. To support this, there is a Transformation Portfolio of dedicated programmes and projects of change that are shaped by the 2020 vision for Nottingham in the Nottingham Plan, the *Good to Great* agenda and *Placing Citizens at the Heart* of what we do.

It is expected that these programmes will also help to secure significant cost reductions and mitigate future cost increases particularly through the 'big ticket' programmes, which sit within the Transformation Portfolio.

Other Frameworks, Strategies and Policies

The PMF links to and supported by a number of other frameworks, strategies and policies that apply across the Council, including:

- Colleague Performance Management Policy
- Competency Framework
- Commissioning Framework
- Corporate Governance framework
- Financial regulations
- Medium term Financial Strategy (MTFS)
- People Management Handbook
- Performance Appraisals
- Risk Management Strategy
- Workforce Planning Strategy

Further Information and Support

These are key contacts for performance management across the Council (as at December 2013).

	✉	☎
Children and Families Department	Sophie Russell Andy Shone	63432 64843
Communities Department	Tina Ormsby Steve Chartres	63425 63698
Development Department	Rachel Mottram Debbie Mellors	64295 63953
Resources Department / Chief Executive's Group	Evonne Rogers Frank Robinson	63747 63757
Organisational Planning and Performance	Chris Common General enquiries	63435
Corporate Director with overall corporate responsibility for Performance	Carole Mills	63838
Councillor Portfolio Holder Lead for Performance	Cllr Graham Chapman	63783

Version Management
- Version 1 – 7/4/14
- Version 1.1 – 25/4/14

AUDIT COMMITTEE – 28 NOVEMBER 2014

Title of paper:	Partnership Governance Health Checks and update to Register of Significant Partnerships	
Director(s)/ Corporate Director(s):	Candida Brudenell, Strategic Director for Early intervention Nigel Cooke, Director of One Nottingham Colin Monckton, Director of Commissioning	Wards affected: All
Report author(s) and contact details:	Laura Catchpole, Corporate Policy Team, 0115 8764964 / laura.catchpole@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Rob Smith, Internal Audit	
Recommendation(s):		
1	To note the key findings from the Partnership Governance Health Checks and Register of Significant Partnerships	

1. **REASONS FOR RECOMMENDATIONS**

1.1 It is recommended that Audit Committee note Section 2.5 and the key findings of the annual partnership governance health checks:
- the majority of partnerships scored 'good/ excellent' in all areas;
- and a sample of these health checks have been verified by colleagues from Corporate Policy and Internal Audit.

1.2 It is recommended that Audit Committee approve the inclusion of the Economic Prosperity Committee, in the Register of Significant Partnerships.

1.3 Note that no partnerships require removal from the Register this year.

2. **BACKGROUND**

2.1 The Council has a long and successful history of working in partnership across the public, private, voluntary and third sector. The benefits and opportunities of working in partnership are well understood but risks can arise from collaborative working and the Council must ensure that its involvement in partnerships does not expose it to an unacceptable level of risk.

2.2 The Partnership Governance Framework includes an annual 'health check' of each partnership which is significant to the City Council in terms of strategic, reputational or financial importance. This health check is designed to identify any risks to the Council from its involvement in any of the partnerships. The results of these health checks are reported to Audit Committee along with remedial actions that are needed to protect the Council from an unacceptable level of risk.

2.3   The partnerships that are deemed significant to the Council in terms of their strategic, reputational or financial importance are listed in the Register of Significant Partnerships. Any changes to the register are reported to Audit Committee annually.

2.4   **Health checks**
Each partnership on the Register of Significant Partnerships is asked to complete an annual self-assessment of the 'health' of the partnership's governance, giving a score as to how well they meet the criteria. Some improvements to the health check process were approved by the Committee in April 2013 these have been incorporated into the 2014 health checks. The scores from the health checks undertaken in 2014 are provided in Appendix 1 and Appendix 2 provides the health check template with the criteria. With the exception of Experience Nottinghamshire, all health checks have received sign off from the Chair. The lead officer for the Experience Nottinghamshire partnership has reported that the City and County Councils are in the middle of complex negotiations with the organisation over the future direction of place marketing for Nottingham and Nottinghamshire, and it is not considered prudent to request 'sign off' of the annual self-assessment by the Chair of Experience Nottinghamshire, whilst these sensitive strategic negotiations are ongoing. It should be noted that the negotiations do not affect the ongoing operations of Experience Nottinghamshire.

2.5   As Appendix 1 shows, the majority of partnerships scored 'good/ excellent' (1/2) in all areas. This annual report usually draws Audit Committee's attention to partnerships with more than one rating of 3 (some key areas for improvement) or 4 (many key weaknesses). In 2014 three partnerships scored 3 more than once.

2.5.i   Economic Prosperity Committee recorded a rating of 3 for the following:
- Decision-making and accountability – this is because the arrangements for reporting and monitoring performance have yet to be defined.
- Performance management – clear outcomes, outputs and milestones have not yet been established and is dependent on the development of the Committee.
- A score for Evaluation and Review is not yet applicable as the Committee has only been in existence since February 2014; however a formal Governance review is planned.

2.5.ii The Green Nottingham Partnership recorded a rating of 3 for the following:
- Membership and structure – this is in specific reference to the issue of membership attendance, which is recorded as an area for improvement.
- Decision-making and accountability – the commentary records that the Partnership is not presently a decision-making forum, but has strength in information sharing, lobbying and supporting local initiatives.
- Performance management – performance is reported on the Nottingham Plan targets, however in addition a new action plan is in development which will be monitored.

2.5iii The Housing Strategic Partnership recorded a rating of 3 for the following:
- Membership and structure – the commentary reports that the Partnership is going through a change in format and structure and this area will be reviewed.
- Decision-making and accountability – new terms of reference are being prepared and therefore accountability and decision-making will be included and implemented as part of this.
- Evaluation and review – the commentary indicates a review has recently taken place and recommendations are being implemented.

2.6 Audit Committee requested that a sample of these health checks be verified. We have therefore drafted a programme of verifying the health checks to look at each partnership once over the next 5 years. This year, health checks for the following partnerships were considered by colleagues from Corporate Policy and Internal Audit, with the following results:

2.6.i Greater Nottingham Transport Partnership – all scores were agreed with, some recommendations for improvement were made (see Appendix 3) which have been communicated to the partnership contacts.

2.6.ii Health and Wellbeing Board – all scores were agreed with, some recommendations for improvement were made (see Appendix 3) which have been communicated to the partnership contacts.

2.6.iii Nottingham Crime and Drugs Partnership – all scores were agreed with, some recommendations for improvement were made (see Appendix 3) which have been communicated to the partnership contacts.

2.7 **Register of Significant Partnerships**
The Economic Prosperity Committee has been the only addition to the Register of Significant Partnerships in 2014. An updated register summarised in Appendix 4.

2.8 **Looking Ahead**
At this stage in the electoral cycle, it is possible that the outcome of the General Election may result in changes to the partnership landscape during 2015.

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

3.1 None

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

4.1 Partnership Governance Framework, approved by the Executive Board Commissioning Sub Committee on 13 May 2009.

Appendix 1
Health check scores 2014

	Partnerships	Aims and objectives	Membership and structure	Decision making and accountability	Performance management	Evaluation and review	Equalities	Finance	Partnership Risk Management
1	Children's Partnership Board	1-2	2	1-2	1-2	1-2	1-2	1-2	2
2	Crime and Drugs Partnership	1	1	1	1	2	2	1	2
3	D2N2 Local Enterprise Partnership	1	1	1	2	1	2	1	3
4	Economic Prosperity Committee	2	2	3	3	N/A	2	2	2
5	N2 Skills and Employment Board	2	2	2	2	2	2	2	2
6	Experience Nottinghamshire	1	1	1	1	2	1	2	2
7	Greater Nottingham Growth Point Partnership	2	1	2	2	2	1	1	2
8	Greater Nottingham Transport Partnership	1	2	1	1	2	1	2	2
9	Green Nottingham	2	2-3	3	3	2	2	3	2
10	Health & Wellbeing Board	2	2	2	2	2	2	N/A	2
11	Housing Strategic Partnership	2	3	3	2	3	2	2	2
12	Nottingham Regeneration Ltd	1-2	1	1-2	2	1-2	1-2	1-2	1-2
13	One Nottingham	2	1	2	1	2	1	2	2
14	Strategic Cultural Partnership	2	2	2	2	2	2	2	2

Appendix 2
Partnership governance health check guidance
PARTNERSHIP GOVERNANCE HEALTH CHECK GUIDANCE

The health check is a guide for an annual assessment of a partnership's governance and capacity. The aim is to make an overall assessment of the effectiveness of the partnership; identify whether there is any strategic, reputational or financial risk to the Council through its membership of the partnership; and lead to proposals for changes/improvements.

Some of the detailed definitions and examples may not be directly applicable. There may be some additional definitions of good governance that the nominated lead officer will need to apply given the specific circumstances or arrangements for a partnership. Evidence to support the findings of the health check will be held by the nominated lead officer.

This health check does not substitute for the partnership itself reviewing its governance and performance. The Council's nominated lead officer and chief officer have a responsibility to support and advise the partnership to carry out its own review and take any action required to improve its governance.

The health check has 4 categories:

Score	Category	Description
1	Excellent	There is an excellent system of governance designed to achieve the partnership's and the council's objectives; any potential strategic, reputational or financial risks for the council are noted and well managed; performance is on track.
2	Good	There is a basically sound system of governance, but some weaknesses that may threaten some of the partnership's and the council's objectives; any concerns regarding management of potential strategic, reputational or financial risks to the council are minor; performance is mainly on track
3	Some key areas for improvement	There are some significant weaknesses that could threaten some of the partnership's and the council's objectives; there are some significant concerns about potential strategic, reputational or financial risks to the council and their management; performance is not on track in some areas.
4	Many key weaknesses	Governance and controls are generally weak leaving the partnership's system open to significant error or abuse; the partnership's and council's objectives are unlikely to be met; there are many significant concerns about strategic, reputational or financial risks to the council and their management; performance is not on track in most areas.

NOTTINGHAM CITY COUNCIL
SIGNIFICANT PARTNERSHIPS GOVERNANCE HEALTH CHECK 2014

In consultation with your partnership, please complete the tables below. Once the details have been agreed by the partnership please return them to laura.catchpole@nottinghamcity.gov.uk. If you require any assistance please contact Laura Catchpole, Policy Officer, Nottingham City Council, on 0115 87 64964.

Name of Partnership:	
NCC Lead Councillor:	
NCC Corporate Director:	
NCC Lead Officer:	
Partnership Chief Executive/Manager (if appropriate):	

We have identified 8 areas of good governance. In each area we have provided a number of clear statements to illustrate what 'excellent' looks like for that area of governance. Using the criteria where 1 is 'excellent' and 4 is 'many key weaknesses' (page 1), please record a score (1-4) for each area of good governance for your significant partnership, making relevant notes on how the score could be improved.

Good governance	Health assessment (score 1-4)	Notes
1. Aims and objectives • The partnership has clear aims and SMART objectives clearly set out and understandable • Strong alignment between the partnership's and The Nottingham Plan and 2030 vision • In pursuing the 2030 vision, the partnership has a set of values against which decision making and actions can be judged (e.g. code of conduct) • The partnership achieves more than the sum of its parts. It delivers the benefits identified in the business case		•

2. Membership and structure • The structure is clear, is set out in Terms of Reference, a Memorandum of Agreement or other governing documents and is regularly reviewed. • Roles, responsibilities and contributions are defined for all partners and set out in the governing documents, including whistle-blowing, responding to compliments and complaints, risk assessment, personnel and financial management and financial and performance reporting. • Key partners provide effective leadership. Their leadership roles and responsibilities are understood and fulfilled. • The membership provides the necessary knowledge, skills and experience to do the job. Partners ensure that the right people are in the right place at the right time. • The partners are committed at the highest level to deliver the partnership's objectives. There are constructive working relationships between all partners, the right people attend the meetings, and these are supported by lead officers within partner agencies. • Changes to membership and exit strategies are considered and the governing documents say what will happen if/when a partner wishes to leave. • The NCC lead officer is actively engaged		•

3. Decision making and accountability
• Decision making is clear and transparent. Authority and delegations are set out in governing documents including
    o Who can make what decisions
    o Delegated responsibilities
• The partnership has a clear procedure for dealing with conflicts of interest
• Those making decisions are provided with information that is fit for the purpose – relevant, timely and give clear explanations of technical issues and their implications
• Decisions are properly recorded and notified promptly to those who are affected by them.
• The partnership has a communication plan to inform service users, members and the public about the partnership, its decisions, its achievements and successes, who is accountable and responsible for what. It provides routes for people to comment/contribute to the partnership's work.
• The partnership has clear lines of accountability and arrangements for reporting performance
• Arrangements are in place for the partnership to report in a timely way on its work and achievements to Council officers and Councillors. Decisions and activities are scrutinized at the appropriate level.
• There are clear routes for members and partners to raise concerns.
		•

4. Performance management • The partnership reviews its progress and		•

delivery against clear outcomes, outputs and milestones and takes prompt corrective action if necessary. • Delivery contracts and agreements are monitored and poor performance is tackled.		
5. Evaluation and review • The partnership regularly reviews its policies, strategies, membership and use of resources against its objectives and targets. • The partnership reviews its progress and delivery against clear outcomes, outputs and milestones and takes prompt corrective action if necessary. • Delivery contracts and agreements are monitored and poor performance is tackled. • Arrangements for responding to complaints and dealing with unforeseen problems needing a prompt response are in place and clearly stated. • There are clearly stated procedures to deal with disputes within the partnership and these are followed when necessary.		•
6. Equalities • The partnership assesses its policies and programmes for their impact on equalities. • The partnership considers impact on inequality and deprivation as part of its performance management.		•
7. Finance • The partnership has access to resources to		•

support delivery of its aims and objectives. It has a financial and /or procurement plan that identifies how it proposes to use these funding to achieve its objectives. • The role of the partnership in relation to finance and the extent of its powers to make financial decisions and approvals are stated and understood. • The partnership has effective arrangements for financial monitoring and reporting. • The partnership uses its resources well and demonstrates how it uses them to add value. It ensures that it uses resources to complement and enhance the work of individual partners. • Where applicable, for the most recent financial year the partnership has had "unqualified audit opinion" (i.e. it has passed audit without any qualifications) and any recommendations raised by auditors have been actioned		
8. Partnership Risk Management • Key people are aware of areas of potential risk in partnerships and the need to allocate resources to manage risk. • The partnership has an agreed mechanism for identifying, assessing and managing risks. • Appropriate tools have been developed and resources are in place to manage risk. • Partnership risks are well managed across organisational boundaries. • There is clear evidence of improved partnership delivery through risk management.		•

Overall Headline Risk

Please fill in the table below the most significant risks which the Council needs to be aware of in terms of our involvement with this partnership. These can include strategic, financial and reputational risks. An example risk has been included to guide you.

Some partnerships may not face any risks, whereas others may face many. For those which face many risks, please note only the three most significant risks.

Please write a brief description of the risk, give each risk a rating for likelihood and impact using the criteria below, and bullet point the mitigating actions which will help mitigate the risk.

Risk Description	Impact Rating	Likelihood Rating	Total Risk Rating (Impact x Likelihood)	Mitigating actions
				●
				●
				●

Likelihood rating scale:
1. Remote
2. Unlikely
3. Possible
4. Likely
5. Almost Certain

Impact rating scale:
1. Negligible
2. Minor
3. Moderate
4. Major
5. Catastrophic

Appendix 3
Recommendations for improvement from verification of partnership governance health checks

General
- All the Partnerships had clear aims, however not all objectives were SMART and we recommend that future reviews of Terms of Reference, Partnership Plans, SLAs etc make every effort to ensure each objective is SMART.

Greater Nottingham Transport Partnership (GNTP)
1. While it was clear that the GNTP acts as an Advisory Board it was not clear how recommendations feed into the various sub-groups and related organisations. We recommend that the Terms of Reference would benefit from greater clarity about membership roles and responsibilities and the membership structure.
2. Under the 'Evaluation and Review' section, none of the documentation supplied indicated there were 'arrangements for responding to complaints...' or 'there are clearly stated procedures to deal with disputes...'. We recommend that this is addressed in the development of your Terms of Reference, with at least a default position of adhering to the City Councils policies and procedures.

Health and Wellbeing Board
1. We recommend that the Terms of Reference would benefit from the inclusion of clear procedure for dealing with conflicts of interest.
2. Under 'Decision-making and accountability' you state that "The Board does not have a written communication plan but a webpage has been developed and the means of additional communicating with citizens and interested parties is being explored." The webpage on the Council's website, whilst containing some information about the Partnership does not link to key documents (e.g. the Health and Wellbeing Strategy) and the page on the One Nottingham website was last updated in August 2013. We recommend that you develop a communications plan.
3. We recommend that in future health checks, there is greater clarity on how the objectives of sub-groups align with the Terms of Reference of the Board.
4. Under the 'Evaluation and Review' section, none of the documentation supplied indicated there were 'arrangements for responding to complaints...' or 'there are clearly stated procedures to deal with disputes...'. We recommend that this is addressed in the development of your Terms of Reference, with at least a default position of adhering to the City Councils policies and procedures.
5. Under the 'Partnership Risk Management' section the health check indicates that risks are identified through reporting and discussion at the Board meetings. We recommend that these need to cross-reference to the Council's corporate risk register as appropriate.

Nottingham Crime and Drugs Partnership
1. We recommend that the Partnership needs to improve the details regarding membership roles and responsibilities within their Terms of Reference and addresses changes to membership and exit strategies should a partner wish to leave and clearly identify how members can raise concerns.
2. It was not clear from the documentation how actions from meetings and those of sub-groups were followed up and who was accountable. We recommend that there is greater clarity in reporting structures.
3. We recommend that in future health checks, greater clarity is provided on how finances and financial risk are managed.

Health check templates

- We recommend that in the next annual health check, these partnerships are also reviewed on these specific issues and recommendations.
- We recommend that cross-references are made between the questions asked in the health check and the partnership register update information, as there is some overlap which would help lead officers in completing their health checks (e.g. links to the Nottingham Plan are requested in both the health check and the register update)
- We recommend that the following wording that partnerships struggle to evidence 'the partnership being more than the sum of its parts' is replaced with 'The partnership has clearly allocated responsibility for achieving its objectives, and has gathered assurance that the objectives will be achieved.'

Comments from Rob Smith, Internal Audit and Laura Catchpole, Corporate Policy

Appendix 4
Nottingham City Council Register of Significant Partnerships
Updated November 2014

	Title	Lead Councillor	Corporate Director Lead	Lead Officer
1	One Nottingham	Councillor David Mellen, Portfolio Holder for Children's Services	Ian Curryer, Chief Executive	Nigel Cooke, One Nottingham
2	Children's Partnership Board	Councillor David Mellen, Portfolio Holder for Children's Services	Alison Michalska, Corporate Director, Children's and Families	Katy Ball, Head of Early Intervention and Market Development
3	Crime and Drugs Partnership	Councillor Dave Liversidge – Portfolio Holder for Community Safety, Housing and Voluntary Sector Councillor Jon Collins, as Chair of the Partnership	Candida Brudenell, Strategic Director, Children and Adults	Peter Moyes, Director, Crime and Drugs Partnership
4	Derbyshire and Derby, Nottinghamshire and Nottingham Local Enterprise Partnership (D2N2LEP)	Councillor Jon Collins, Leader and Portfolio Holder for Strategic Regeneration and Schools	David Bishop, Corporate Director, Development	Dave Tantum, Economic Development Partnership Manager
5	Economic Prosperity Committee	Councillor Chapman, Deputy Leader of the Council and Portfolio Holder for Resources and Neighbourhood Regeneration	Ian Curryer, Chief Executive	Chris Henning, Director of Economic Development
6	Experience Nottinghamshire	Councillor Nick McDonald, Portfolio Holder for Jobs and Growth	David Bishop, Corporate Director, Development	Chris Henning, Director, Economic Development
7	Greater Nottingham Growth Point Partnership	Councillor Alan Clark, Portfolio Holder for Energy and Sustainability Councillor Jane Urquhart, Portfolio Holder for Planning and Transportation	David Bishop, Corporate Director, Development	Sue Flack, Director of Planning and Transport

	Title	Lead Councillor	Corporate Director Lead	Lead Officer
8	Greater Nottingham Transport Partnership	Councillor Jane Urquhart, Portfolio Holder for Planning and Transportation	David Bishop, Corporate Director for Development	Sue Flack, Director of Planning and Transport
9	Green Nottingham Partnership	Councillor Alan Clark, Portfolio Holder for Energy and Sustainability	John Kelly, Corporate Director, Communities	Gail Scholes, Head of Energy Services
10	Health and Wellbeing Board	Councillor Norris, Portfolio Holder for Adults, Commissioning and Health	Alison Michalska, Corporate Director, Children's and Families Chris Kenny, Director of Public Health	Colin Monckton, Head of Commissioning & Insight Alison Challenger, Deputy Director of Public Health
11	Housing Strategic Partnership	Councillor Dave Liversidge – Portfolio Holder for Community Safety, Housing and Voluntary Sector	David Bishop, Corporate Director, Development	Graham de Max, Partnership Manager, Housing Strategy
12	N2 Skills and Employment Board	Councillor Nick McDonald, Portfolio Holder for Jobs and Growth	David Bishop, Corporate Director, Development	Nicki Jenkins, Head of Economic Development
13	Nottingham Regeneration Ltd	Councillor Alan Clark, Portfolio Holder for Energy and Sustainability	David Bishop, Corporate Director, Development	Paul Seddon, Head of Development Management and Regeneration
14	Strategic Cultural Partnership		John Kelly, Corporate Director, Communities	Hugh White, Director, Sports, Culture and Parks

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AUDIT COMMITTEE – 28 NOVEMBER 2014

Title of paper:	**TREASURY MANAGEMENT 2014/15 HALF YEARLY UPDATE**	
Director(s)/ Corporate Director(s):	Glen O'Connell, Acting Corporate Director for Resources	**Wards affected:**
Report author(s) and contact details:	Glyn Daykin, Finance Analyst - Treasury Management Tel: 0115 8763724 E-mail: glyn.daykin@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Members of Treasury Management Panel: Geoff Walker, Acting Director of Strategic Finance Jeff Abbott, Head of Strategic Finance Theresa Channell, Head of Corporate Finance Barry Dryden, Senior Finance Manager	
Recommendation(s):		
1	To note the treasury management actions taken in 2014/15 to date.	

1. REASONS FOR RECOMMENDATIONS

To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year. The Code also requires that the reports be considered by relevant scrutiny or executive committees, and that the City Council approves any treasury management strategy decisions.

2. BACKGROUND

Treasury management is the management of a local authority's cash flows, borrowings and investments, together with the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks. Since 1 April 2004 councils have been required to have regard to the Prudential Code. The Code requires treasury management to be carried out in accordance with good professional practice. The City Council retains external advisors to assist with this activity.

Appendix 1 (the Executive Board report on this subject of 18 November 2014) provides details of treasury management activity to 30 September 2014.

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

None.

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Treasury Management in the Public Services, Code of Practice 2011 – CIPFA

EXECUTIVE BOARD - 18 NOVEMBER 2014

Subject:	**TREASURY MANAGEMENT 2014/15 HALF YEARLY UPDATE**
Corporate Director(s)/ Director(s):	Glen O'Connell, Acting Corporate Director for Resources
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration
Report author and contact details:	Geoff Walker, Acting Director of Strategic Finance 0115 8764157 geoff.walker@nottinghamcity.gov.uk

Key Decision	☐ Yes ☒ No	**Subject to call-in**	☒ Yes	☐ No

Reasons: ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision   ☐ Revenue ☐ Capital

Significant impact on communities living or working in two or more wards in the City	☐ Yes ☐ No

Total value of the decision: Nil

Wards affected: All	**Date of consultation with Portfolio Holder(s):** Throughout the financial year to date.

Relevant Council Plan Strategic Priority:

Cutting unemployment by a quarter	☒
Cut crime and anti-social behaviour	☒
Ensure more school leavers get a job, training or further education than any other City	☒
Your neighbourhood as clean as the City Centre	☒
Help keep your energy bills down	☒
Good access to public transport	☒
Nottingham has a good mix of housing	☒
Nottingham is a good place to do business, invest and create jobs	☒
Nottingham offers a wide range of leisure activities, parks and sporting events	☒
Support early intervention activities	☒
Deliver effective, value for money services to our citizens	☒

Summary of issues (including benefits to citizens/service users):

This report sets out details of treasury management actions and performance from 1 April 2014 to 30 September 2014.

- no new long-term borrowing or debt rescheduling had been undertaken to 30 September 2014;
- the average return on investments to 30 September 2014 was 0.640%;
- there has been compliance with Prudential Indicators for 1 April to 30 September 2014;
- the HRA fixed £19.161m of internal borrowing for 30 years at 4.31%.

Exempt information:

None

Recommendation(s):

1	To note the treasury management actions taken in 2014/15 to date.

1 REASONS FOR RECOMMENDATIONS

1.1 To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year. The Code also requires that the reports be considered by relevant scrutiny or executive committees, and that the City Council approves any treasury management strategy decisions.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 Treasury management is defined as the management of an organisation's cash flows, borrowings and investments, together with the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks. Since 1 April 2004, local authorities have been required to have regard to the Prudential Code. This Code requires treasury management to be carried out in accordance with good professional practice. The Council retains external advisors to support this activity.

2.2 In respect of external investments, the Council is also required to ensure that the Department for Communities and Local Government (CLG) guidance is followed, with the priorities being, in order:
  - security of the invested capital;
  - liquidity of the invested capital; and
  - commensurate with security and liquidity, an optimum return on those investments.

2.3 The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of our treasury management activities is measured. Treasury management risks are identified in the Treasury Management Practices document. The main risks to the Council's treasury activities are:
  - liquidity risk (inadequate cash resources);
  - market or interest rate risk (fluctuations in interest rate levels and, thereby, in the revenue impacts of loans and investments);
  - inflation risks (exposure to inflation);
  - credit and counterparty risk (security of investments);
  - refinancing risks (impact of debt maturing in future years);
  - legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

No other options were considered as the report is required by the Treasury Management Code of Practice

4 TREASURY MANAGEMENT ACTIVITY TO 30 SEPTEMBER 2014

4.1 2014/15 Strategy

The overall Treasury Management Strategy for 2014/15 was approved by the City Council on 3 March 2014. **Table 1** summarises the actions taken to 30 September 2014 against each of the main three elements of that strategy:

TABLE 1: TREASURY MANAGEMENT ACTIONS	
Strategy 2014/15	**Actions to 30 September 2014**
New borrowing – to raise up to £24.6m to finance new capital expenditure in the year and replace maturing long-term debt.	To 30 September, no new long-term borrowing had taken place (see 4.3*).*
Debt rescheduling – to consider any debt rescheduling or repayment opportunities which enable revenue savings to be generated in the year.	To 30 September, no debt rescheduling had taken place (see 4.4).
Investments – to ensure the security of funds invested through the application of a restricted counterparty list and the imposition of limits on the period and levels of individual investments. Within those confines, to maximise the return on investments.	The average return on investments from 1 April to 30 September 2014 was 0.64%. The benchmark average 7-day London Inter-Bank Bid (LIBID) rate for the same period was 0.347%. The 2014/15 budget assumed an average return of 0.68% for the period (see 4.6).

4.2   Interest rates during 2014/15

The Bank of England Base Interest Rate of 0.50% has been so far unchanged in 2014. Although the UK has shown some positive signs of economic recovery during the year, this recovery is developing slowly and it is currently expected that the base rate will remain at its present level for at least the first half of 2015.

Short-term interest rates have continued to be kept low by a combination of the Government's Quantitative Easing and Funding for Lending programmes, designed to increase the liquidity in financial markets. The Bank of England's 'forward' guidance from the Monetary Policy Committee (MPC) has reinforced the view that increases to base interest rates will only begin when the economic recovery is deemed to be sustainable. Key indicators include the degree of spare capacity in the economy, growth in exports and earnings growth. The MPC emphasised that when Bank Rate did begin to rise, it was expected to do so gradually and would likely remain below average historical levels for some time to come.

This expectation has seen a small increase to short-term interest rates over the last few months however, weakness in the Eurozone economy is becoming an growing risk to the UK recovery and could damage confidence and disrupt financial markets.

Longer-term interest rates increased during 2013/14 across all periods, however, in the first 6 months of 2014/15 rates have fallen back as guilt yields react to the escalation of geo-political risks in the Middle East and the Ukraine alongside the slide towards deflation within the Eurozone.

Table 2 shows actual interest rates for the half-year from 1 April:

Date	Base Rate %	1 month	3 month	6 month	1 year	5 year	20 year	40 year
					%			
1 Apr	0.50	0.42	0.46	0.56	0.84	2.03	3.24	3.26
30 Apr	0.50	0.42	0.47	0.57	0.85	2.02	3.19	3.23
31 May	0.50	0.43	0.48	0.67	0.87	1.98	3.14	3.19
30 Jun	0.50	0.43	0.50	0.71	0.94	2.17	3.22	3.25
31 Jul	0.50	0.43	0.50	0.72	0.97	2.17	3.07	3.07
31 Aug	0.50	0.43	0.50	0.77	0.98	1.93	2.77	2.78
30 Sep	0.50	0.43	0.51	0.66	1.00	1.99	2.83	2.86

TABLE 2: INTEREST RATES 2014/15

4.3 Borrowing

The continuing low return on short-term investments, coupled with the ready availability of cheap short-term borrowing, has led to the deferral in the raising of long-term borrowing in the last 3 financial years, with a combination of internal cash balances and short-term debt being used as a preferred source of finance. Although long-term borrowing costs are projected on an upward path through the medium-term, the margins between short and long-term interest rates remains an important influence on the Council's borrowing strategy and no new long-term borrowing was raised to 30 September. Existing cash surpluses have been used to fund maturing debt in the year. **Table 3** summarises the Council's outstanding external debt at 30 September 2014 showing the value of debt and the average interest rate payable on the debt:

TABLE 3: DEBT PORTFOLIO		
	30 SEP 2014	
DEBT	**£m**	**%**
PWLB borrowing	641.9	3.830
Market loans	49.0	4.348
Local bonds & stock	0.9	3.263
Temporary borrowing	6.0	0.450
TOTAL DEBT	**697.8**	**3.837**

4.4 Debt rescheduling

The penalties (premia) for the early repayment of Public Works Loan Board (PWLB) debt, which constitutes over 90% of the Council's existing long-term borrowing, have remained prohibitively high. Therefore, no opportunities for debt rescheduling arose in the first half of 2014/15.

4.5 HRA Treasury Management Strategy

From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing and not being replaced the HRA accumulates a variable rate internal borrowing position. On the 1st April £19.161m of internal borrowing was fixed on a maturity loan basis for 30 years with reference to the 4.31% PWLB interest rate quoted on the day.

4.6   Investments

The 2014/15 approved strategy allows for investments with the following counterparties; the UK Government's Debt Management Office, UK Government Gilts and Treasury Bills, other local authorities, UK and overseas banks meeting the required investment criteria, Money Market Funds (pooled, short maturity, high quality investment vehicles offering instant access), other pooled funds (variable net asset value, high quality investment vehicles offering 1-5 day access), Housing Associations and Supranational Bonds.   The adoption of specific counterparties is based on a wide range of criteria, including credit ratings, credit default swap rates, government support mechanisms and parent bank support.   Maximum sums and periods of investment are set for individual counterparties.

During the year, monitoring of the financial position of all counterparties was undertaken by treasury management colleagues and retained advisors.   The credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

This then informs any decisions to revise the investment strategy. Where considered necessary, individual counterparties may be suspended from the approved list, or the maximum amount or period of investment reduced.

The Council's cash investments represent reserves and provisions held within the balance sheet, plus surplus working capital. During 2014 to date, all investments have been managed in-house. The original 2014/15 budget assumed an average cash surplus of £243.3m during the year. The actual average cash balance to 30 September was £246.0m, largely as a result of the receipt of a number of grant payments in advance of required expenditure.

The average rate of interest earned on all investments to 30 September was 0.640%. The original budget assumed a return of 0.680% for the same period. The return on investments is expected to be as budgeted by the end of 2014/15.   In comparison, the benchmark 7-day LIBID interest rate for the same period was 0.347%.

Appendix A provides details of the Council's external investments at 30 September 2014, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.

4.7   Icelandic Bank deposits – update

The City Council had £41.6m invested over three Icelandic banks, when the Icelandic banking system collapsed in October 2008, forcing all three banks into administration. Since then, these banks have continued to pass through an administration process to determine the level of payments to be made to the banks' creditors. No further payments have been received up to 30 September 2014.

The latest repayment position and the final expected recovery levels, based on the latest reports from the various bank administrators are shown in Table 4:

TABLE 4: ICELANDIC BANK DEPOSITS			
Bank	Deposit	Recovery To 30/9/14	Final Est. Recovery
	£m	%	%
Glitnir	11.0	79	97
Landsbanki	15.0	91	91
Heritable	15.6	94	94
TOTAL	**41.6**	**89**	**94**

a) Glitnir Bank (£11m) – the administrators have made repayment to all priority creditors, including the City Council, in full settlement of the accepted claims. However, approximately 21% of this sum has been paid in ISK. Because of ongoing currency restrictions in Iceland, this sum is currently retained in an interest-bearing account with the Central Bank of Iceland, pending resolution of the currency release issues.

4.8   Daily Cash Management

To avoid bank overdraft charges and maximise interest earned, the Council seeks to have a near zero overnight cash balance held in its group of accounts at the Co-op bank.
Due to the difficulties experienced by the Co-op Bank, which increased the risk associated with balances held at the Co-op, including uncleared banking items management action was taken that ensured the cash balance plus uncleared items were kept as close to zero as possible over the weekends.

The Council has appointed Lloyds Bank as its new banking provider. However, mitigating action will need to continue until banking services are fully transferred.

4.9   Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2014/15, which were set in 3 March 2014 as part of the Authority's Treasury Management Strategy Statement.

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The limits on fixed and variable rate interest rate exposures on its debt are:

	2014/15 %	2015/16 %	2016/17 %
Upper limit on fixed interest rate-debt	50-100	50-100	50-100
Actual	92		
Upper limit on variable interest rate exposure	0-50	0-50	0-50
Actual	8		

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper	Actual
Under 12 months	0%	25%	4%
12 months and within 24 months	0%	25%	2%
24 months and within 5 years	0%	25%	8%
5 years and within 10 years	0%	50%	20%
10 years and within 25 years	0%	50%	35%
25 years and within 40 years	0%	25%	21%
40 years and above	0%	75%	10%

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15 £m	2015/16 £m	2016/17 £m
Limit on principal invested beyond year end	50	40	40
Actual	25		

Operational Boundary and Authorised Limit for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

	2013/14 (max in year £m)	2014/15 (max to date £m)
Total Debt including PFI	842.7	805.7
Operational Boundary	914.9	1,041.6
Authorised Limit	954.9	1,091.6

5   FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY/VAT)

5.1 Treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of the City Council's debt relates to capital expenditure on council housing and this is charged to the Housing Revenue Account (HRA). The remaining

costs are included within the treasury management section of the General Fund budget. The General Fund Treasury Management budget is £50.610m for 2014/15.

5.2 An estimated outturn for 2014/15 is included in the quarter 2 revenue monitoring report on the 16 December 2014 Executive Board agenda. The budget for 2015/16 will be submitted with the 2015/16 treasury management strategy, in February 2015.

6 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS AND CRIME AND DISORDER ACT IMPLICATIONS)

6.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is prepared for the treasury function.

6.2 The key Strategic Risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The rating for this risk at 30 September 2014 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 31 March 2014. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

7 SOCIAL VALUE CONSIDERATIONS

7.1 Not applicable.

8 REGARD TO THE NHS CONSTITUTION

8.1 Not applicable.

9 EQUALITY IMPACT ASSESSMENT (EIA)

Has the equality impact been assessed?

(a) not needed (report does not contain proposals for new or changing policies, services or functions, financial decisions or decisions about implementation of policies development outsi the Council) ☒

(b) No ☐

(c) Yes – Equality Impact Assessment attached ☐

10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)
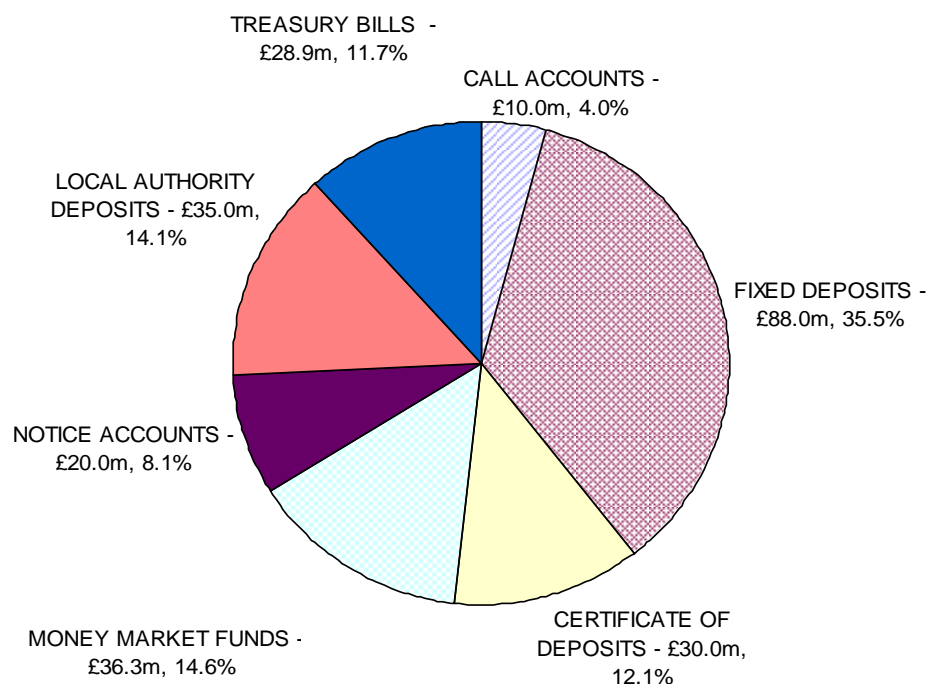
10.1 None

11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

11.1 Treasury Management in the Public Services Code of Practice 2011–CIPFA

12 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT

Glyn Daykin, Finance Analyst - Treasury Management
Tel: 0115 8763724, E-mail: glyn.daykin@nottinghamcity.gov.uk

Type of Investment as at 30 September 2014

TREASURY BILLS - £28.9m, 11.7%

CALL ACCOUNTS - £10.0m, 4.0%

LOCAL AUTHORITY DEPOSITS - £35.0m, 14.1%

FIXED DEPOSITS - £88.0m, 35.5%

NOTICE ACCOUNTS - £20.0m, 8.1%

MONEY MARKET FUNDS - £36.3m, 14.6%

CERTIFICATE OF DEPOSITS - £30.0m, 12.1%

Investments by counterparty including the Fitch long-term credit rating as at 30 September 2014

SVENSKA HANDELSBANKEN AB (AA-) - £10.0m, 4.0%

NATIONAL AUSTRALIA BANK LTD (AA-) - £5.0m, 2.0%

DBS BANK (AA-) - £10.0m, 4.0%

BARCLAYS BANK (A) - £10.0m, 4.0%

HSBC (AA-) - £20.0m, 8.1%

RABOBANK LTD (AA-) - £10.0m, 4.0%

LLOYDS BANK (A) - £15.0m, 6.0%

NORDEA BANK FINLAND ABP (AA-) - £10.0m, 4.0%

BANK OF NOVA SCOTIA (AA-) - £5.0m, 2.0%

MONEY MARKET FUNDS (4) (AAAm) - £36.3m, 14.6%

OTHER LOCAL AUTHORTIES (NR) - £35.0m, 14.1%

STANDARD CHARTERED BANK (AA-) - £20.0m, 8.1%

NATIONWIDE BUILDING SOCIETY (A) - £20.0m, 8.1%

SANTANDER BANK (A) - £10.0m, 4.0%

AUDIT COMMITTEE - 28 NOVEMBER 2014

Title of paper:	INTERNAL AUDIT WORK PLAN FOR EAST MIDLANDS SHARED SERVICES	
Director(s)/ Corporate Director(s):	Geoff Walker 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 outcome from 2013/14 audit work planned and completed to date	
2	Note the updated EMSS 2014/15 Audit Plan	

1. **REASONS FOR RECOMMENDATIONS**

   This report follows the report presented to the 28 February 2014 Audit Committee and outlines the work undertaken to date by Nottingham City Internal Audit (NCCIA) for East Midlands Shared Services (EMSS), and the Internal Audit Plan for EMSS 2014/15.

2. **BACKGROUND**

2.1. Nottingham City Council (NCC) and Leicestershire County Council (LCC) formed a partnership (EMSS) in 2011 to deliver HR, payroll and finance transactional shared services. It is supported by state of the art technology and intends to offer a sustainable solution through new ways of working to deliver more efficient and cost effective services. It will also form the base from which other services can be added and other councils taken on board.

2.2. The change to EMSS requires significant changes in both organisations operational procedures and culture.

2.3. Both organisations have agreed that NCCIA will conduct the required audit project work both during the transition and when the service is in full operation.

2.4. The Committee's Terms of Reference include receiving reports on the work planned and undertaken by NCCIA.

2.5. The Committee has considered and endorsed the work planned for EMSS at previous meetings.

Leicestershire County Council

Nottingham City Council

EastMidlandsSharedServices

2.6. **Appendix 1** updates the Committee on the outcomes from the work undertaken regarding the 2013/14 EMSS audit plan (Annex A) and presents the updated 2014/15 audit plan (Annex B).

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

None

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

Audit Committee 28 February 2014 - Internal Audit Work Plan for East Midlands Shared Services

EMSS Internal Audit Outturn 2013/2014 and Audit Plan 2014/2015

A EMSS – 2013 /14 Annual Outturn Summary

A1 - Background

1.1 Nottingham City Council and Leicestershire County Council formed a partnership, East Midlands Shared Services (EMSS), in 2011 to deliver HR, payroll and finance transactional shared services. The change to EMSS required significant changes to both organisations operational procedures and culture. Both organisations agreed that Nottingham City Internal Audit Services would conduct the required Internal Audit (IA) work both during the transition and when the service was in full operation.

1.2 Where practicable, work is confined to the operations of EMSS, with the client internal audit sections responsible for transactions up to them being received by EMSS and after the transactions have been completed in accordance with the contractual arrangements in place.

1.3 EMSS IA work is conducted for the Head of EMSS, who is responsible for the management response and agreeing recommendations. IA plans and progress reports and the Head of Internal Audit's annual report are received periodically by the EMSS Operations Board. Client organisations receive assurance regarding the governance arrangements in place from EMSS via the organisation's annual report.

A2 - Nottingham City Council Internal Audit (NCCIA)

2.1 NCCIA is the designated Internal Audit provider for EMSS. The Head of Internal Audit (HoIA) has established all appropriate standards and processes to comply with the governance requirements set down in the CIPFA Statement on the role of the Head of Internal Audit. NCCIA policies, plans and performance are effectively scrutinised throughout the year including, within an approved timetable of meetings, by the City Council's Audit Committee. The HoIA meets regularly with EMSS's management team and provides details of findings and assurance to its Operations Board. Annually, the HoIA provides an opinion to the Operations Board for inclusion in the Head of EMSS's annual report. Internal Audit EMSS plans and progress against these plans are also reported periodically to the LCC Corporate Governance and NCC Audit Committees.

2.2 The service has adopted, and complies with the principles contained in the Public Sector Internal Audit Standards (PSIAS) and has met the requirements of the Account and Audit Regulations 2011 and associated regulations.

A3 - EMSS Audit Plan Outturn 2013/14

3.1 EMSS managers are responsible for ensuring that proper standards of internal control operate within their organisation. Internal Audit reviews these controls and gives an opinion in respect of the systems and processes put in place.

3.2 The 2013/14 Audit Plan, as agreed by EMSS and reported to LCC and NCC governance committees, has been completed in accordance with the professional standards set for the service.

3.3 The Internal Audit service has undertaken reviews of the internal control procedures in respect of the key systems and processes run by EMSS on behalf of itself and its clients. The planned work has been supplemented by ad hoc reviews and requests for audit input by EMSS management.

3.4 Reports in respect of all reviews have been issued to the responsible colleagues, together with recommendations and agreed action plans. Each report included a level of assurance that can be taken from its findings.

3.5 A summary of the work completed is attached at **Annex A** which shows a limited assurance being given in the Payroll, Accounts Receivable and Accounts Payable audits. The main reason for these assurance levels was Internal Audit's inability to obtain full sets of systems data suitable to provide appropriate samples for testing in regard to the accuracy and integrity of transactions. Since our reports were issued LCC IA have undertaken further work for LCC and we are awaiting the outcome of this work.

A4 - EMSS Head of Internal Audit Opinion - 2013/14

2013/14 saw significant change, challenges and risks to the EMSS partnership with the operational commencement of the delivery of HR and financial services for LCC and NCC. The HoIA has continuously reviewed the risks associated with EMSS operations and has allocated the necessary resources, via the audit plan, to form his opinion on its governance arrangements. In forming his opinion the HoIA has reviewed all the IA reports issued in 2013/14 and drawn upon other sources of assurance from key colleagues in both client organisations and EMSS to help and assess the key control risks to the partnership'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, that there have been no significant issues (as defined in the CIPFA Code of Practice) discovered in the Internal Audit work. However, 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 limited level of assurance can be given that internal control systems are operating effectively within EMSS.

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B Internal Audit Plan 2014/15

B1 - Background

1.1 Nottingham City Internal Audit Services are the appointed Internal Auditors for EMSS.

1.2 The Public Sector Internal Audit Standards (PSIAS) definition of Internal Audit (IA) is as follows:

1.3 "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."

1.4 Consequently, IA is an integral part of the EMSS's Corporate Governance Framework and gives assurance complementing that given by external review bodies including external audit.

B2 - The Role of IA

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

2.2 A key factor in the effectiveness of IA is that it is 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

2.3 Each audit or piece of work undertaken has a clear scope and objectives. Any audit undertaken within EMSS is conducted under the framework of an agreed audit programme, with a clearly defined scope agreed with the partner organisations. 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.

2.4 The IA Service requires unrestricted coverage to EMSS activities and unrestricted access to all employees' records and assets deemed necessary to fulfil this function.

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B3 - The Audit Planning Process.

3.1 The work is targeted in order to address the key risks to the EMSS strategic objectives and other priorities of the enterprise. The main elements used in constructing the plan have been agreed with EMSS management.

3.2 The unique value that the professional IA function provides to EMSS is objective assurance on the effectiveness of the governance, risk management and internal control processes. Management is 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.

3.3 IA also helps EMSS 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.

3.4 In accordance with this principle the Audit Plan has been devised following a risk based approach using the following sources:

- The need to provide effective and efficient services to the client base and give appropriate assurances to clients and external auditors

- Consultation with management

- IA risk assessment informed by cumulative audit knowledge and experience and meetings with senior colleagues

- Professional judgement including the risk of fraud and error

3.5 IA will also deliver work on the core financial systems to provide assurance that the basic governance and control arrangements are continuing to operate effectively. The scope of audits will be agreed with management and the IA Plan can be similarly developed to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified.

3.6 The EMSS IA Plan 2014-15 is attached as **Annex B.**

B4 - Standards

4.1 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.

4.2 The EMSS Operations Board will be provided with regular monitoring reports of work undertaken against the Plan. This will help inform the Board's understanding of EMSS's Corporate Governance Arrangements and their effectiveness.

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Nottingham City Council
Internal Audit

East Midlands Shared Services

2013 / 2014
Internal Audit Outturn against Plan

Leicestershire County Council

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ASSURANCE RELATED AUDITS 2013/14

Description	Outline / Service Delivery	Assurance / Status
Payroll Audit	System Audit / Employee Service Centre	Limited
Pensions Audit	System Audit / Employee Service Centre (NCC only)	Significant
Accounts Receivable Audit	System Audit / Finance Service Centre	Limited
Accounts Payable Audit	System Audit / Finance Service Centre	Limited

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EMSS - BUSINESS AUDITS

Audit	Description / Business Development Service Delivery	Assurance/ Status
EMSS IT Audit	• Review of hosting and associated IT configurations	Significant
Contingency Planning	• Review initial Contingency arrangements • Review Business Continuity Plans	Significant Significant
Reviews requested by the Head of EMSS	• Systems Administration Team • BACS (June 2013) • Duplicate Payments NCC	Limited Significant Significant

Reviews requested by Section 151 Officers	• LCC
	    o Waste Contractor
	• NCC
	    o Accounts Receivable
		Significant
		
		Significant

Velos-IT contract	• Review performance in line with the contract with Velos-IT	Significant

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Definitions of Assurance Levels Given

High Assurance	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 Assurance	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 Assurance	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 Assurance	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.

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East Midlands Shared Services

2014 / 2015
Proposed Internal Audit Plan

Leicestershire County Council

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ASSURANCE RELATED AUDITS 2014/15

Description	Outline / Service Delivery	Days	Start / Status
Payroll Audit	System Audit / Employee Service Centre	20	Oct 14
Accounts Receivable Audit	System Audit / Finance Service Centre	15	Oct 14
Accounts Payable Audit	System Audit / Finance Service Centre	18	Oct 14

EMSS - BUSINESS AUDITS

Audit	Description / Business Development Service Delivery	Days	Start / Status
EMSS IT Audit	• Systems Administration Follow up • Velos-IT contract Follow up • IT Audits	5 3 10	Oct 14 Nov 14 As Commissioned
Targeted Risk Based Reviews	EMSS income control systems Potential Issues Brought Forward • EMSS payments and income from clients • Teachers Pensions – Follow up as required • Payroll QA • Overpayments o Skills	40	As Commissioned

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Audit	Description / Business Development Service Delivery	Days	Start / Status

	o Academy interface
	• Recruitment Team
	       o CRB checks
	       o QA
	• File Management
	
	• External Customers / Academies – SLA's
	
	• Duplicate Payments NCC & LCC		

Reviews requested by Section 151 Officers	• LCC • NCC	20 20	As Commissioned

POST LIVE REVIEWS

Audit	Description / Business Development Service Delivery	Days	Start / Status
	• Review SLA and contractual arrangements (Brought Forward)	1	Mar 15 TBC

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AUDIT COMMITTEE – 28 NOVEMBER 2014

Title of paper:	**East Midlands Shared Services Update**	
Director(s)/ Corporate Director(s):	Glen O'Connell Acting Corporate Director for Resources	**Wards affected:** All
Report author(s) and contact details:	Jeff Abbott, Head of Corporate and Strategic Finance jeff.abbott@nottinghamcity.gov.uk 0115 876 3648	
Other colleagues who have provided input:	Barry Dryden, Senior Finance Manager Lucy Littlefair, Head of East Midlands Shared Services	
Recommendation(s):		
1	The report is for information and discussion	

1   REASONS FOR RECOMMENDATIONS

1.1   The City Council's external auditors (KPMG) presented their "report to those charged with governance" (ISA260) to Audit Committee on 19 September 2014. The only significant finding in the report related to weaknesses in the operation of financial controls by East Midlands Shared Services (EMSS).

1.2   These weaknesses were identified by Internal Audit reports and Audit Committee requested that the recommendations arising from those reports were presented to the Committee together with an update on the progress made in meeting them.

2   BACKGROUND

2.1   During 2013/14 Internal Audit produced series of reports for both EMSS and Nottingham City Council (NCC) reviewing the following systems:

- Accounts Payable
- Accounts Receivable
- Payroll

2.2   As part of the external audit KPMG undertook additional testing to ascertain whether the weaknesses had a material impact on the financial statements.

2.3   Although KPMG confirmed that there was no material impact arising within the Council's accounts as a result of these issues, they recommended that the Internal Audit recommendations were implemented as soon as possible.

3   KEY ISSUES

3.1   The recommendations from the Internal Audit reports have been combined into one document and are attached at Appendix A, together with updated management responses. Some of the recommendations related solely to Leicestershire County Council and have, therefore, been omitted here. Additionally, recommendations that appeared in both the NCC and EMSS Audit Reports have been combined.

3.2 Elsewhere on this agenda the current situation has been summarised in the management response to the recommendation in the Annual Audit letter as follows:

"The weaknesses raised by Internal Audit were identified through joint work with Strategic Finance and EMSS. They were mitigated during the year through, for example, manual interventions and system development. This is inefficient, however, and the EMSS partners have embarked upon a comprehensive improvement programme designed to evaluate and correct all processes in use within these systems. The objectives of this programme include the delivery of the Internal Audit recommendations, although they will be exceeded by the level of improvement being delivered. The issues raised by Internal Audit which relate to the availability of data have already been resolved."

3.3 Nevertheless the majority of issues raised have already been resolved. The major outstanding issues are as follows:

NCC Outstanding Issues:

- A Service Level Agreement for finance functions is being constructed and is due to be issued by March 2015.
- The Council's Financial Regulations are being reviewed with a view to providing an update by March 2015. The review will include the Council's relationship with EMSS.

Joint NCC and EMSS Outstanding Issues:

- Reports to provide information on the Council's debt position have been significantly improved and further improvements will be provided through the upgraded version of Oracle and the associated reporting tools by March 2015
- Resourcing issues to allow payroll reconciliations to be passed to EMSS will be resolved by March 2015

EMSS Outstanding Issues:

- A number of day-to-day issues caused by the functioning of Oracle are being analysed and resolved as part of the improvement programme identified in 3.2 above.
- From February 2015 all requests for payment will only be entered on Oracle once they have been approved
- The process for dealing with invoices on hold will be confirmed as part of the improvement programme identified in 3.2 above.
- New processes for managing invoices not scanned into the Council's imaging system have been piloted through the Royal Centre and are working well. Further developments in these processes and in electronic invoicing are being considered as part of the improvement programme.
- Debt collection history notes will be included in the reports being written using the upgraded version of Oracle, allowing a much more timely and focussed collection process.
- The Accounts Receivable process review will address both the completeness of supporting information for debts written off and issues associated with the timely recovery of salary overpayments
- The contents of payroll exception reports are being reviewed and revised reports will be commissioned

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

None

5 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

KPMG report to those charged with governance (ISA 260) 2013/14

Annual Audit Letter 2013/14

Accounts Payable - Detailed Findings and Action Plan

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
NCC 1	There is excessive use of blue bills by NCC colleagues. **Risk** Duplicate payments occur.	NCC should consider its position regarding the use of blue bills, with a specific focus on: • Discouraging / controlling future use • Reviewing all of the blue bills processed by NCC Finance to date and highlighting and correcting duplicate payments made via Oracle or OneWorld.	High	The use of blue bills, which are requests for payments where an invoice is not held, was a temporary measure during the change over process. Payment by blue bill is now reserved for exceptional circumstances when urgent payment is required that is not available through the normal AP process. Effective and efficient use of the AP system and internal processes including the use of purchase orders has reduced the need to make payment by blue bill. SLA setting out the roles and responsibilities, processes and performance levels / targets for EMSS has been drafted and is planned to be issued by the end of March 2015	Complete Jeff Abbott 31/3/15
Joint NCC and EMSS	The control of blank NCC cheques became the responsibility of FSC from April 2013. Our review highlighted the fact that there are no records in place to record usage, i.e. no audit trail. In the past year two incidents of missing blank cheques have been reported to Internal Audit. Risk Cheques could be used fraudulently	FCS should discuss this issue with NCC with a view to improving the record keeping or transferring the responsibility back to NCC.	High	Control of blank cheques has been transferred back to NCC. Usage records are now held within Strategic Finance.	Complete

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
EMSS 1	The following concerns have been raised regarding the day to day use of Oracle: • Time involved when inputting invoices • Invoices disappearing from the invoice log and reappearing several days later • Order numbers not being allocated when requisitions are approved • Limited reporting facilities Risk Inefficient process	These issues should be prioritised and investigated	High	Head of EMSS has commissioned a reviewed of all processes within the FSC. The review will be complete by the end of March. It will address process and system related issues. Concerns regarding slowness and reliability of Oracle and all supporting systems is still of significant concern for the FSC. A wider review of the IT Platform supporting Oracle, email, intranet as well as Castle and Wisdom storage solutions is required but cannot be prioritised until the Oracle Health has been completed. A standard Oracle report is now available and work to extract daily information from both Castle and Wisdom needs prioritising with the respective IT Teams. Further investigation of 'reappearing' invoices indicates that this is a process issue associated with the management of invoice folders in the FSC. This process is under review	Lucy Littlefair March 2015
EMSS 2	NCC RFP's are automatically transferred onto the Castle system. The level of detail transferred does not allow for an effective search facility. Risk Inefficient process	FSC should take advice from IT regarding potential for improvement	Medium	Additional information is now available for RFP's	Complete
EMSS 3	When RFP's are received by FSC, these are input straight into Oracle for payment. No checks are undertaken to ensure the correct authorisation has been obtained. Risk Fraudulent payments may occur	All RFP's should be first checked for authorisation before being processed for payment on Oracle.	High	A decision to implement a significant change to the RFP process was made at a recent client meeting. The RFP and approval process will be incorporated into Oracle functionality with the FSC receiving approved RFP's only which will processed in a similar way to a 'feeder' interface.	February 2015 Penny Hurst

	Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
	EMSS 4	Although the majority of invoices are scanned by Northgate onto Castle/Wisdom there are still occasions when authorised invoices are received directly into the Accounts Payable Section. These are entered directly into Oracle and not scanned into Castle. Risk Invoices cannot be readily identified	All invoices should be scanned onto Castle in order that they can be attached when entered into Oracle	High	This is no longer an issue for NCC as there is now a facility to 'smart save' images into Castle. This stores the image directly into the imaging software without the need to forward the invoice to the scanning service.	Jeff Abbott July 2014
	EMSS 5	There are currently a large number of invoices on hold, which are mainly down to work flow procedures. It is understood that FSC are currently working to clear the current back log. Risk Invoices will remain unpaid	The cause of the backlogs should be investigated and rectified	High	Hold invoice chases - agreement on the approach to this has been agreed in a recent client meeting. A change request is to be submitted shortly alongside changes to the invoice notifications. There is clarity as to where the responsibility lies for invoice holds between LCC/FSC. Further work to clarify responsibilities is required between NCC/FSC but it is expected that this will be addressed as part of NCC's 'Enabling Oracle' project	March 2015 Penny Hurst
	EMSS 6	Internal Audit have provided FSC a report highlighting all potential duplicate payments, so far no work has been undertaken to review these. Risk Invoices may be paid twice	All apparent duplicate payments should be investigated and corrected where necessary	High	The FSC have completed the review of NCC duplicates to February 2014 and are working with suppliers/payees where there is still monies to be returned. Work is ongoing to review duplicates from March 2014 onwards.	Complete

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
EMSS 7	There is currently no report to identify accounts that have a credit balance. Risk Monies may be owed to the Client	A report should be commissioned that would allow FSC to identify any accounts with a credit balance. Accounts Payable should review accounts in credit and request direct payment where necessary.	Medium	New reports are being developed to address this and other operational information needs	March 2015 Penny Hurst
EMSS 8	Although some work has been undertaken on returned NCC BACS payments, there is still a large number awaiting investigation. Risk Inaccuracies will not be corrected	FSC should ensure that all returned BACS and cheques are investigated and brought up to date. A process should then be introduced which allows these to be investigated promptly.	High	2014/15 NCC BAC's returns are up to date. BAC's backlogs have now been cleared with returned BAC's now being dealt with on a daily basis as they arise.	Complete
EMSS 9	When a new supplier is required, the requestor completes an e-form and provides a copy of the supplier's official stationery. Once entered into Oracle, the form is printed off to be later scanned and filed within a shared drive. Currently there is a back-log of documents from July 2013 awaiting scanning and filing. Risk Inefficiency	The suppliers' details should not be printed off but stored automatically on the shared drive.	Low	Although supplier management processes have been significantly improved, and backlogs are substantially reduced, further developments are to be delivered as part of the improvement plan	March 2015 Lucy Littlefair

| Ref | Finding

Risk | Recommendation | Priority | Management Response
(Current Status November 2014) | Responsibility and Target Date |
|---|---|---|---|---|---|
| EMSS 10 | A sample of NCC invoices was selected to ensure they had been accurately entered. It was noted that for one supplier 'SR Universal White Lining' VAT had been charged but there was no VAT registration number on the invoice.

Risk
Non-compliance with HMRC rules | Colleagues involved with the processing of invoices should be reminded of the need to check the tax details and refer back to the supplier if there is a problem. | Medium | CIS Overview delivered to FSC AP and Technical staff by NCC Finance. A mop up session to be arranged for staff who were unavailable along with additional VAT training by March 2015.

Spot checks will be carried out on an ongoing basis to ensure compliance with VAT rules. | Penny Hurst and Tina Adams March 2015 |

Accounts receivable - Detailed Findings and Action Plan

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
NCC R1	Financial Regulations have not been updated since the introduction of East Midlands Share Services, particularly in the way in which Debt Collection is managed. EMSS are tasked with the collection of Debt and write off of the debt but this role is not clarified within Financial Regulations or any delegated authority. In addition, the responsibilities of outside agencies in the debt management process are not specified. <u>Risk</u> Changes in governance arrangements are not clear leading to misunderstandings thus leading to disputes and conflict over actions or inaction.	Financial Regulations and delegations should be reviewed in light of the role of East Midlands Shared Services.	High	The Council's Financial Regulations are currently undergoing a fundamental review in the light of both EMSS and other new partnership/new business arrangements.	Theresa Channell March 2015
NCC R2	From the testing undertaken it is apparent that there is no cross referencing, from source documents to invoices / credit notes to ensure that supporting documentation can easily be traced This also refers to the e-forms raised by departments and stored within EMSS. Risk Recovery action through the courts may be challenged and lost where supporting information cannot be traced and located easily.	Corporate document management processes should be established to ensure best practice is achieved and source documents readily located.	Medium	Cross referencing is a standard practice for areas that raise invoices, however, services involved will be reminded of the requirement to cross reference documentation.	Jeff Abbott December 2014

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
Joint NCC and EMSS R1	The reports within the AR module are poor and do not provide for sufficient information to inform managers about how the debt is being managed and support electronic analysis. Information should include: 1) The collection stage of any outstanding debt 2) Sufficient information about the reasons for write off i.e. the stages already gone through prior to authorisation being required. This is particularly important concerning the commercialisation agenda.	Full reporting requirements should be established to ensure that managers have sufficient information to make decisions about any outstanding debt issue. Users should be consulted as to the types of reports and information required. Training and guides should be provided in order that users can effectivly use the system to manage and report on their debt.	Medium	Interim arrangements have been in place, however, since the introduction of the system upgrade in November 2014 reports need to be rewritten. An AR debt report showing debt responsibilities and dunning levels (the stage an invoice is in, in the chase process) has been submitted for development post upgrade and is high priority for the FSC These reports will also give managers access to the relevant information via their dashboards. The interim arrangements to date have been: 1) The information has been available in ORACLE and provided to EMSS to aid collection. 2) The information is available as a note to individual invoices and reporting allowed this information to be viewed by Strategic Finance. However, the information could not be provided to managers due to security access issues in the previous version of OBIEE.	Susan Tytherleigh 31/3/15

Joint NCC and EMSS R2	EMSS have written off £47k of debt under a previous delegated authority when they were part of Nottingham City Council. EMSS believe that they are able to write off debt below £5k without formal approval of the City Council. No such delegated authority exists for external agencies, such as, EMSS and therefore the City Council and its Heads of Service do not have an awareness of the debt that is being is being written off. Risk Debt may be written off without appropriate authority	Heads of Service and Senior Finance Partners should formally approve EMSS action the write of off debt, where the reason for non-collection can be justified. This should be applied to all debt.	Medium	Authority to write off debt will remain with NCC. Full and appropriate supporting papers which follow the corporate policy will be required prior to any write off of debt. All write offs are held centrally and reported to CFO on a quarterly basis and reported to Executive Board at the year end.	Complete
		In addition considerations should be give to establishing an on-line approval route in order that managers can formally approve the write off on-line rather that work arounds that require formal, manual, signatures as this removes any efficiency gains and would require no further additional work should the reporting disclose the full circumstance and justification at source	Medium	Agreed, subject to the necessary supporting documentation being available through the online route. Some system reconfiguration is necessary and resource constraints may delay this. This will be considered as part of the improvement programme	Lucy Littlefair March 2015
EMSS R1	The report of adjustment approval does not provide details or notes as to why the adjustment or write off has occurred. Nor does it give an indication as to the authority of the write off.	The write off approval report should be specified in order to record the management trail as to the reason and approval of the write off.	High	Collection history notes cannot be reported out of Oracle and until the reporting issues are addressed additional information regarding write offs have to be collated manually by	Penny Hurst March 2015

	<u>Risk</u> Write off of debt is not properly reported			the FSC.	
EMSS R2	Some of the debts that had been written off were following appropriate attempts to collect that debt. In these cases it is clear that the collection histories are being recorded differently for each client. Those debts that relate to LCC appear to keep a record of each e-mail and telephone call concerning the action taken. Those records that relate to NCC lack supporting information, as only one record appeared to state action taken. In addition, this record also indicated that the Head of EMSS had approved the debt write off. <u>Risk</u> No collection history is retained within the system, thereby making it difficult to justify the reason for write off.	EMSS should a establish a common workling practice that ensure a full history of each invoice should be recorded in order that the write off can be justified. In addition, when approval is given by the client organisation the name and designation should be recorded in the notes as a point of reference and as a means of completing the management trail.	High	Debt collection is forming part of the Accounts Receivable process review (Sept-Mar) and completeness of information held will form part of this review.	Penny Hurst March 2015

Payroll - Detailed Findings and Action Plan

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
NCC 1	Corporate Financial procedure (CFP) D4.14 requires that the establishment structure should be certified as correct by the Head of HR at least annually. No exercise has been taken since October 2012 to verify departmental establishment structures. **Risk** Paying employees who have left the employment of the establishment	EMSS should be requested to provide establishment details for Heads of Service to confirm accuracy at least annually but preferably monthly, before payrolls are run.	High	Since 2012 the establishment held in ORACLE HR has been kept up to date through a control process which requires documented authorisation (DDM) before the establishment is changed. An establishment is also created within the Pay Model which is used to agree the Council's payroll budget with managers through the Finance Analysts. Details of staff payments are provided to managers each month as part of the budget monitoring process. External Audit no longer raise this issue as a risk.	Complete
NCC 2	NCC Finance is currently undertaking all reconciliations for payroll. Due to the limited reports available on Oracle and the uncertainty as to whose responsibility it has been to complete the reconciliations, reconciliations only commenced in November 2013. Some Payroll Control accounts have still not been reconciled this financial year. **Risk** Errors will not be identified	Reconciliations should be completed on a monthly basis and all discrepancies investigated.	High	NCC Strategic Finance completed reconciliations for 2013/14 and are undertaking them again in 2014/15. Reconciliations are largely complete up to September 2014. Discussions are in progress with EMSS to determine the most effective process for the future	Complete Barry Dryden December 2014

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
NCC 3	Where reconciliations have been undertaken, there is no evidence to show who has completed the reconciliation and no evidence could be seen that any had been reviewed. **Risk** No accountability	All reconciliations should be signed and dated (electronically) when completed. There should be a system of periodic review for all reconciliations.	Low	Reconciliations are now being signed, dated and reviewed.	Complete
NCC 4	Managers are not always informing EMSS of staff changes/leavers on a timely basis. **Risk** Salary overpayments may be incurred	NCC managers should be reminded of the importance of informing EMSS in regard to any staffing changes.	High	We have regular communications either directly from EMSS to the organisation or via the intranet in terms of process, systems improvements and changes. The intranet has been updated with the manager self serve information and any key information is fed through also to Departmental Leadership Teams via the Business Partner network, both finance and HR. In terms of process also there are certain checks and balances in place requiring managers to check with colleagues in HR for some processes before submitting to EMSS to ensure that the necessary action can be taken e.g. changes to posts, retirements, leavers, job evaluation, post creation	Complete

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
NCC 5	NCC process 3rd party payments (PAYE, pension, unions etc.) on behalf of a small number of academies who use EMSS as their payroll provider. Reimbursements for these payments are collected at a later date. It was noted at the time of audit St Stephens Academy owed four months of 3rd party deductions to NCC (£186k). **Risk** Poor credit control	A process should be in place to ensure Academies reimburse NCC on a regular monthly basis for all 3rd party payments made on their behalf.	Medium	EMSS notify the academies of the required reimbursement each month. All but two of the academies are paying by direct debit. The two outstanding academies are negotiating with their respective banks to establish direct debits.	Complete
Joint NCC and EMSS	ESC does not provide a standard service to both Councils. Reconciliations for LCC are being undertaken by ESC, whilst the same reconciliations for NCC are being undertaken by NCC Finance. Risk Responsibilities are unclear	Undertake a review to determine where the levels of responsibility should lay i.e. client or provider.	High	Some work has taken place to assess where this work should sit, however there still remain an issue with regards to allocation of resources to the ESC to undertake this work.	Jill Turner March 2015
EMSS 1	The exception reports (Pay Variation >60%) for the two main payrolls (M and 10) are substantial. The current process requires Payroll colleagues to view every record on the report unless there is local knowledge and the length of the report makes it difficult to identify the important flags and increases the risk of errors occurring Risk Errors will be overlooked	The contents of the exception reports should be reviewed to ensure the parameters used to determine what is printed are relevant. By identifying/excluding casual employees would allow a more streamlined approach.	High	As part of the review of payroll services (Sept – Mar) we will be establishing the reporting requirements for submission for development.	Emma Gibson Head of ESC

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
EMSS 2	The exception reports are split between the Pay Clerks for investigation. There is an inconsistency to how Pay Clerks indicate that each exception has been viewed. Some are ticked some remain blank, while others indicate the reason why the exception occurred i.e. new starter, return from maternity Risk Errors will not be identified	There should be a clear, consistent approach to reviewing, marking up and signing and dating exception reports	Low	This was addressed when the report was issued.	Complete
EMSS 3	Systems Administration is responsible for amending standing data within Oracle on the authorisation of ESC Manager. Due to the Government pay award of 1% in 2013, pay scales were updated. This was undertaken by the Team Leader but no checking was undertaken by a second officer to ensure accuracy. Risk Errors will not be identified	All amendments to standing data once authorised should be input by one colleague and checked independently by a second. Evidence of this check should be retained.	Medium	EMSS now ensure the tables are checked and evidence retained.	Complete
EMSS 4	All leavers should be actioned on receipt of a completed TER1. For one of the sample selected, ECS had acted on an email from NCC HR. This nearly resulted in an employee being paid a redundancy payment of £6k, fortunately this was averted. Risk Inaccurate information may be obtained	Termination of employees should only be undertaken where a TER1 has been completed. Any resignations letters/emails should be returned to the manager asking for the correct document to be completed.	Medium	This was addressed when the report was issued	Complete

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
EMSS 5	A sample of 25 leavers was traced to the supporting TER1. For NCC 6 could not be located and for LCC 1 could not be located. Risk Information could not be verified	All documents should be retained.	Low	This was addressed when the report was issued	Complete
EMSS 6	All NCC schools are required to complete a monthly spreadsheet detailing all additional payments. Whilst some LCC schools do operate a similar system the majority still complete individual paper timesheets. Risk Non-standardised procedures leading to inefficiency	All schools/academies should be requested to use a standard approach	Medium	Business case currently being developed to commission a payroll 'interface' solution which will enable EMSS to operate efficient and consistent processes for NCC and LCC schools.	January 2016 Jill Turner Business Development Manager

Ref	Finding Risk	Recommendation	Priority	Management Response (Current Status November 2014)	Responsibility and Target Date
EMSS 7	A spreadsheet is maintained that lists all outstanding NCC salary overpayments at the time when ESC took over responsibility for NCC payroll. The spreadsheet does not give a true picture of what overpayments are outstanding and what is being recovered. A sample of overpayments was selected and queried with the HR Manager; to date no response has been received. A sample of 10 overpayments were selected and the following results seen:- • 5 overpayments had no explanation attached • 3 overpayments could be traced to Delphi were adjustments/recovery had been agreed • 1 overpayment the employee had since left, no debtors invoice could be seen to have been raised • 1 overpayment, the employee had been sent a letter in March 2013 no further recovery could be evidenced. Risk Overpayments are not monitored and subsequently recovered.	A full review should be undertaken of all entries within the spreadsheet. The review should endeavour to • Check that debtor's invoices have been raised where required. Remove entries where overpayments are being recovered on Oracle. • Ensure that all outstanding overpayments have a clear recovery action plan in place. • Obtain write-out authority from NCC where an overpayment is historic and all possible recovery action has been taken.	High	A review of the current processes for handling overpayments will be undertaken as part of the EMSS improvement plan, with a view to identifying the most effective and efficient process, and this will then be applied as a standard across the EMSS partnership. Current overpayments are managed by the ESC and outstanding balances monitored	Emma Gibson March 2015

AUDIT COMMITTEE – 28 NOVEMBER 2014

Title of paper:	**COUNTER FRAUD STRATEGY**	
Director(s)/ Corporate Director(s):	Geoff Walker Acting Director of Strategic Finance	**Wards affected: All**
Report author(s) and contact details:	Shail Shah Head of Internal Audit Tel: 0115-8764245 Email: shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
	To endorse:- • The City Council's Counter Fraud Strategy (CFS) set out at **Appendix 1** • The Counter Fraud Strategy for Schools (SCFS) set out in **Appendix 2**	

1. **REASONS FOR RECOMMENDATIONS**

   To seek endorsement of the City Council's updated Counter Fraud Strategy and the Counter Fraud Strategy for Schools

2. **BACKGROUND**

1.1. Good governance policies and procedures are essential when allocating and controlling Council resources and supporting effective delivery of the Council's strategic and operational objectives.

1.2. A cornerstone of the Council's governance policies is the CFS, which brings together the key strands of governance into an overarching strategy document. The maintenance and embedding of a counter fraud culture is essential if the Council is to maximise the use of its resources and minimise waste through inefficiency and/or fraudulent activity.

1.3. An effective CFS provides the basis for developing a counter fraud culture in the Council and, as part of the Council's control system, the elements of the CFS contribute positively to the assurance received by the Committee in respect of the effectiveness of the control environment.

1.4. The CFS is the main strategy statement geared towards protecting public funds and assets by requiring compliance with regulations, rules, procedures and guidelines designed to promote the highest standards of conduct and behaviour.

1.5. The CFS will continue to evolve and develop to reflect changes in legislation and best governance practice. The Strategy was last approved by the Committee in November 2013.

1.6. Once approved, the CFS will be publicised on the intranet.

1.7. As part of our counter fraud activity, an on-line fraud awareness e-learning module which takes approximately 30 minutes is currently being rolled out. All councillors and colleagues are encouraged to participate.

1.8. The Head of Internal Audit has developed the bespoken SCFS shown at **Appendix 2** to be promoted for adoption by school governing bodies. The strategy addresses the relevant parts of The Department of Education Schools Financial Value Standard which cover efforts to protect public money, and follows the same structure as the Council's Strategy.

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

   None.

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

   Counter Fraud Strategy – Audit Committee 29 November 2013
   Schools Financial Value Standard – Department for Education, September 2011

Nottingham City Council - Counter Fraud Strategy

1.   BACKGROUND

1.1   The Council aims to operate and maintain a clear system of integrated policies and procedures to assist in preventing fraud and hence minimise losses to the public purse. An overview of these arrangements will be maintained and good practice promoted through the use of regulation and various colleague and Councillor Codes.

1.2   The Council will put procedures in place to enable citizens and colleagues to raise concerns in the knowledge that these concerns will be properly and thoroughly investigated. These procedures will be continuously developed to improve the Council's response to fraud. Incidents of fraud will be published, sanctions will be imposed and redress will be sought where appropriate.

1.3   The Counter Fraud Strategy will continue to evolve and develop as circumstances change. Such circumstances will include changes in legislation, procedure, accountability within services and the Council's requirements. Substantive changes to the Strategy will be reported to Councillors for endorsement.

2.   COUNTER FRAUD IN CONTEXT

2.1   Fraud is defined under the Fraud Act 2006 as dishonest false representation or abuse of position with the intention of making a gain or causing a loss or a risk of loss to another. For the purpose of this Strategy the term is also used to describe a number of offences under former and current legislation, including deception, forgery, theft, misappropriation, collusion, bribing and being bribed, conspiracy, money laundering offences, offences under the Identity Cards Act 2006, possession, making or supplying of articles for use in fraud or obtaining services dishonestly. The term is also used in respect of civil offences where claims can be made under the torts of deceit or negligence, breach of trust, or where a fidelity insurance claim may be made.

2.2   Therefore, 'fraud' can be used to describe a multitude of offences. In administering its responsibilities to protect public funds and assets, the City Council has developed this Strategy to deter fraud whether it is attempted from outside or within the Council.

2.3   This Strategy aims to protect public funds and assets by requiring compliance with regulations, rules, procedures, and guidance designed to encourage the prevention of fraud, promote detection and identify clear responsibility for investigations. The impact of the Strategy will be to ensure that Council resources are not diverted away from delivery of the priorities within the Council Plan.

2.4   This Strategy is based on:

- the seven Nolan Principles for Public Life;
- three additional principles in the Relevant Authorities Order 2001;
- best practice as defined by the Audit Commission, and
- legal requirements including that incorporated in the Social Security Administration (Fraud) Act 1997, Public Interest Disclosure Act 1998, Competition Act 1998, Money Laundering Regulations 2007, Fraud Act 2006, Public Contracts Regulations 2006, Serious Crime Act 2007 and the Bribery Act 2010.

2.5   This Strategy is based on a series of inter-related procedures designed to frustrate any act of fraud. These cover:

Culture	Section 3
Prevention	Section 4
Detection and Investigation	Section 5
Training	Section 6

3.   CULTURE

3.1   The City Council expects the culture of the Council to be one of honesty and opposition to fraud. Councillors and colleagues at all levels are expected to lead by example by personally complying with and ensuring wider and comprehensive adherence to rules, procedures and practices which should feature straightforward, effective, well documented controls that are legally sound and honest.

3.2   There is a requirement, because of the use of public monies, that all individuals and organisations associated in any way with the Authority will act with integrity, without thought to or actions involving fraud. Any allegation of fraud will be dealt with in accordance with the Council's Fraud Response Plan (**Appendix A**) (see Financial Regulation (FR) C12 and Corporate Finance Process (CFP) C4). Fraud is likely to be considered as a serious issue if proven in disciplinary, standards or other inquiries.

3.3   Bribery is a criminal offence. The Council has a zero-tolerance towards bribery and does not, and will not, pay bribes or offer improper inducements to anyone for any purpose. The Council will not accept bribes or improper inducements, or use a third party to channel bribes to others and is committed to the prevention, deterrence and detection of bribery.

3.4   All individuals (irrespective of their formal employment status) working for or with the Council are an important element in the Authority's stance on bribery and fraud.

3.5   They are encouraged through established procedures detailed in Financial Regulations, the People Management Handbook, Code of Conduct for Employees and the Code of Conduct for Councillors (Part 6 of the Council's Constitution) and the Confidential Reporting Code to raise any concerns that

they may have on fraud issues where they are associated with the Authority's activities. The Council will support Councillors and colleagues in bringing such issues to its attention.

3.6 Councillors and colleagues can raise such issues in the knowledge that they will be treated in confidence and properly investigated. The "How to raise a concern" section of the Confidential Reporting Code details the reporting options available to colleagues.

3.7 If Councillors or colleagues are not satisfied with the Council's response to concerns they have raised, they have the right to refer the issue to external agencies. Possible contact points are listed in the "How the matter can be taken further" section of the Confidential Reporting Code.

3.8 Citizens are also encouraged to report concerns through any of the routes included in the Confidential Reporting Code. Alternatively they can use the Council's complaints procedure or the dedicated fraud lines advertised in the Council's entries in relevant telephone directories.

3.9 The Council will respond to all allegations as outlined in the "How the Council will respond" section of the Confidential Reporting Code and in accordance with the requirements of CFP C4.

3.10 However, it is important that colleagues avoid possible abuse of this process. If allegations are unfounded and malicious this is likely to be considered to be a serious disciplinary matter.

4. PREVENTION

4.1 Colleagues

4.1.1 The Council recognises that a key measure in preventing fraud is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential colleagues in terms of their propriety and integrity. In this regard, temporary and contract colleagues should be treated in the same manner as permanent colleagues.

4.1.2 Procedures for the recruitment of colleagues are detailed in the Code of Practice for Recruitment and Selection, which is included in the People Management Handbook. Only colleagues who have attended an in-house recruitment and selection training course should be involved in recruitment.

4.1.3 Where references are requested, the candidate's suitability for the post needs to be in accordance with the person specification. Honesty and integrity is recognised in law as a duty owed by the employee to the employer, and the Council requires all prospective and current employees to deal with the Council honestly.

4.1.4 Dishonest applications will be referred to the Police if the evidence is considered to be sufficient.

4.1.5 Colleagues of the Council are also expected to abide by the Council's Code of Conduct for Employees which is included in the People Management Handbook. The requirement to observe the Code of Conduct is contained within the disciplinary procedure that forms part of the contract for all colleagues. The consequences of breaching the Code of Conduct are contained within the Council's disciplinary procedures. In addition, if colleagues are members of a professional body they are also expected to follow the Code of Conduct relating to their professional qualifications.

4.1.6 The Code of Conduct includes the requirement for colleagues to formally declare any pecuniary interest in contracts or service provided as prescribed in Section 117 of the Local Government Act 1972.

4.2 Suppliers

4.2.1 The City Council is under a mandatory obligation to remove from its select lists any supplier of work, goods, materials or services that has been found to infringe "the Chapter 1 prohibition" of the Competition Act 1998 as it relates to anti-competitive agreements, decisions and concerted practices.

4.2.2 The City Council is also under a mandatory obligation to exclude suppliers of work, goods, materials or services, from bidding for public sector contracts under the EU public procurement regime where they have been convicted of certain offences as detailed in the Public Contracts Regulations 2006.

4.2.3 The City Council must enforce the obligations set out in 4.2.1 and 4.2.2 above when involved with the procurement of work, goods, materials or services. Guidance on enforcement is available at Mandatory Exclusion from Bidding and Collusive Tendering.

4.3 Association with other organisations

4.3.1 When dealing with external organisations and/or partners, the City Council expects the highest level of integrity. Where this is not the case the Council will re-examine the relationship it has with these organisations and take any action deemed necessary to protect the public resources and demonstrate its intolerance to fraud.

4.4 Councillors

4.4.1 Councillors are required to operate within:

- The Council's Standing Orders
- The Code of Conduct adopted by the Council on 12 September 2011
- The Council's Councillor/Colleague protocol
- National Standards for Councillors, England & Wales

4.4.2 These documents are in both the Year Book and the Council's Constitution. They include requirements for Councillors to:

- register interests, including employment, business and property interests

- ensure they are not involved in matters or decisions where they have a conflict of interest.

Breaches of these requirements may be referred to the appropriate standards body.

4.4.3 Councillors should raise any concerns about fraud through the avenues detailed in the Strategy but must avoid raising unfounded malicious allegations which would breach the Code.

4.5   Systems

4.5.1 The Council's Chief Finance Officer (CFO) has a statutory responsibility under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Council's financial affairs and has developed FRs and CFPs to assist in discharging this responsibility. In addition, there is a requirement to comply with the Accounts and Audit Regulations 2011, the Audit Commission Act 1998 and the Local Government Act 2003 relating to accounting records, control systems and audit.

4.5.2 The FRs and CFPs require colleagues, when dealing with the Council's financial affairs, to act in accordance with sound practices and outlines systems, procedures and responsibilities of colleagues. Colleagues involved in finance are required to attend relevant and effective departmental training programmes which promote and endorse the requirements of FRs. This programme of training will be developed to include a formal accreditation process to ensure that only appropriately trained colleagues can access main financial systems unsupervised.

4.5.3 Corporate Directors are responsible for the financial systems in their departments and are required to comply with FRs, which establish the rules through which they must operate. This responsibility includes considering the risk of fraud as defined by this strategy when making changes to financial systems and processes and when making changes to their department structures.

4.5.4 The Council has developed and is committed to continuing with systems and procedures that incorporate efficient and effective internal controls that include adequate separation of duties. Their existence and effectiveness is independently monitored and assessed by Internal Audit, who carry out a comprehensive programme of audits targeted at key risk areas.

4.5.5 The City Council has appointed the Director of Strategic Finance to act in compliance with the Money Laundering Regulations and has imposed a maximum level for cash transactions CFP D2.12.

4.5.6 Corporate Directors are responsible for ensuring that colleagues handling cash transactions have been recruited appropriately and are aware of their responsibilities as detailed in the relevant legislation.

4.6   Combining with Others

4.6.1   Arrangements are in place and continue to develop, to encourage the exchange of information between the Council and other agencies on national and local fraud activity in relation to Local Authorities. These include but are not limited to:

- The Police
- The Audit Commission (National Fraud Initiative) or its equivalent
- The Audit Commission and its successors through reviews and the distribution of fraud warnings
- National Counter Fraud Network
- DWP – Job Centre Plus
- Local Authorities Investigating Officers Group (LAIOG)
- UCAS (Student Awards)
- Auditors' networks, locally and nationally

4.6.2   The National Fraud Initiative (NFI) is part of the statutory audit process currently undertaken by the Audit Commission. Local government, health and other public bodies are required to provide data from key systems which is cross matched to identify inaccuracies or potential fraud. The City Council will continue to actively participate in the NFI or similar exercises and will provide all mandatory data sets and all optional data sets where practical and effective. The Council will allocate appropriate resources for the investigation of the data matches returned and to respond promptly to queries from other participating bodies. The data sets provided or to be provided in the latest exercise are:

- Payroll, Housing Benefits, Creditor Payments, Housing Tenants and Right to Buy, Council Tax, Electoral Register, Insurance Claims, Blue Badge Holders, Private Residential Care Home Residents, Market Traders, Taxi Drivers, Concessionary Travel Passes, Residents Parking and Personal Alcohol Licenses.

4.6.3   These arrangements provide a valuable means of combating potential criminal activity of a fraudulent nature against the Council and other public sector bodies. Such collaboration has been very successful in reducing the risk of external fraud.

5.   Detection and Investigation

5.1   The number and extent of preventative measures, particularly internal control systems within the Council, has been designed to provide indicators of any fraudulent activity, although generally they should be sufficient in themselves to deter fraud.

5.2   As part of its proactive programme of work, the Council will undertake data matching exercises to assist in the detection of fraudulent activity. Using resources and information available, this work will be carried out in accordance with the Data Matching Strategy and Policy of the Council (**Appendix B**). Once these exercises are complete, the Council will allocate sufficient resources to provide a prompt resolution to any queries or apparent fraudulent activity.

5.3   It is often the alertness of colleagues and citizens to such indicators that enables detection to occur and the appropriate action to take place when there is evidence that fraud may be in progress.

5.4   Despite the best efforts of managers and auditors, many internal frauds are discovered by chance or third party information, and the Council has in place arrangements to ensure that such information is properly dealt with as set out in Section 3 of this Strategy.

5.5   The investigation of suspected internal irregularities such as fraud is normally carried out or directed by Internal Audit on behalf of the CFO and the Council's Monitoring Officer. The investigation of irregularities should be in accordance with CFP C4. The CFO has a responsibility for deciding on the course of the investigation.   If the CFO, Head of Internal Audit or responsible Corporate Director considers that a loss may have occurred as a result of irregular expenditure or fraud, they may, involve the Police.

5.6   Requesting, agreeing to receive or accepting an advantage, whether or not it is actually received, linked to improper performance of a function or activity and requesting, acquiescing to, or assenting to improper performance of a function or activity in anticipation of an advantage are serious criminal offences. The Code of Conduct for Employees will reflect and incorporate this. It is normal practice for any such allegation to be referred to the Police.

5.7   External frauds perpetrated within Housing and Council Tax Benefits are investigated by a dedicated team within the Resources Department. There are arrangements in place to ensure that information or concerns received either internally or externally are properly dealt with, as set out in Section 3 of this Strategy. The work of this team is subject to internal system reviews by Internal Audit and external reviews by the External Auditor.

5.8   Corporate Directors will arrange for all instances of suspected fraud to be reported to the Head of Internal Audit who will maintain a central register in line with expected best practice and monitor the progress of each case. Investigations will be carried out under the management of the appropriate Corporate Director as directed by the Head of Internal Audit in consultation with the CFO and the Council's Monitoring Officer.

5.9   This reporting procedure is essential as it ensures:

- Consistent treatment of information regarding any suspected fraud.
- An effective investigation by an experienced colleague and/or appropriate direction provided by Internal Audit.
- The proper implementation of a structured response to any suspected act of fraud including improvements to identified weaknesses in internal controls

5.10   The Head of Internal Audit will report at least quarterly to the CFO with a summary of all fraud cases recorded over the period.

5.11   Dependent upon the nature and anticipated extent of the allegations, auditors will normally work closely with management and other agencies such as

Nottinghamshire Police to ensure that all allegations and evidence are properly investigated and reported upon. Where a Police investigation is running concurrently with an internal investigation, the requirements of the Police investigation will take precedence over the internal investigation. This is necessary to minimise any impact the internal investigation has on the Police investigation and the integrity of the evidence collected.

5.12   Within the context of 5.11, the Council will normally ask the Police to investigate whenever it considers that it has discovered strong evidence of fraud.

5.13   The Council's Disciplinary Procedures will be used where the outcome of an investigation indicates improper behaviour, whether or not the matter has been referred to the Police.

5.14   Sometimes the Council's external auditors (currently the Audit Commission) may also carry out investigation into suspected fraud and will do so in accordance with their established procedures.

5.15   The City Council will seek the strongest available sanctions against any individual or organisation who commits fraud against the Council. The full range of sanctions will be applied consistently and fairly, taking a cost effective approach, making robust and transparent decisions. Actions may include prosecution, civil proceedings, disciplinary action and publication of investigation outcomes. The City Council expects contractors and partners to take similarly robust sanctions.

6.   Training

6.1   It is recognised that the success of this Strategy and the organisation's general credibility will depend largely on the effectiveness of communication, programmed training, and responsiveness of colleagues throughout the Authority.

6.2   The Council supports management in the provision of ongoing financial awareness training at both corporate and departmental level, and the mandatory training of colleagues dealing with finance, as required by Financial Regulations. Colleagues are also expected to participate in fraud awareness and related training as prescribed from time to time by the CFO.

6.3   These training requirements should be incorporated into colleague induction training, the personal assessment process and any formal accreditation for colleagues involved in financial processes. Accreditation will require colleagues to acknowledge an understanding of their responsibilities within the procedures.

6.4   Appropriate training will be provided to auditors and other investigators regarding the investigation of suspected fraud, and this will be reflected in their individual training plans.

Nottingham City Council

Fraud Response Plan

Nottingham City Council October 2011, updated November 2013

Contents

Appendices

1 Introduction and Objective

Nottingham City Council is committed to protecting public funds. Minimising the losses to fraud and corruption is an essential part of ensuring that all of our resources are used for the purpose for which they are intended - the provision of high quality services to citizens. We have a range of policies and procedures that facilitate the 'zero tolerance' approach adopted. These include the:

- The City Council constitution
- Accounting procedures
- Financial regulations and Standing Orders
- Colleague Code of Conduct
- Fraud Awareness Training
- Counter Fraud Strategy
- Prosecution and Sanction Policy (available from Benefit Investigation Team)
- Confidential Reporting (Whistleblowing) Policy

The public is entitled to expect the City Council to conduct its affairs with integrity, accountability, honesty and openness, and demand the highest standards of conduct from those working for it and with it. Therefore one of the Council's main objectives, to combat fraud and corruption, is to identify and maintain good practices, address weaknesses in current processes and introduce improved systems for the management of those processes. This will ensure that the potential for fraud is kept to an absolute minimum. It applies to all Councillors and all personnel whether direct employees of Nottingham City Council, agency staff or contractors.

NCC Financial Regulations require that matters involving any suspected financial irregularities are referred to the Head of Internal Audit. The decision as to whether or not the irregularity should be investigated will be taken at his direction. All referrals are taken seriously and the action to be taken guided by an assessment of the risk. Where fraud is found, appropriate disciplinary action and police involvement will be pursued. Losses will be recovered wherever possible and incidents of successful prosecution publicised.

Management and colleagues are likely to have little experience in dealing with fraud and, when suspected cases arise, may be unsure of the appropriate action to take. This document is intended to provide direction and help to colleagues in dealing with suspected cases of theft, fraud and corruption. It also gives direction to others wanting to report matters of concern.

The objective is to safeguard the proper use of the City Council's finances and resources.

2 Reporting fraud suspicions

2.1 Initial guidance if you suspect a fraud.

A fraud may be uncovered in a variety of ways, from your own observations, someone from inside or outside blowing the whistle, ongoing controls throwing up a discrepancy, internal or external audit discovering a problem, or external regulators and inspectors finding something. It is important for you to know how to deal with your suspicions.

Things to Note

- Stay calm – remember you are a witness not a complainant. Write down your concerns immediately – make a note of all relevant details such as what was said in phone or other conversations, the date, the time, the names and contact details of anyone involved. Consider the possible risks and outcomes of any action you take Make sure your suspicion is supported by facts, don't just allege.

- Do not become a private detective and personally conduct an investigation or interviews. Do not approach the person involved (this may lead to him/her destroying evidence). Do not discuss your suspicions or case facts with anyone other than those persons referred to below unless specifically asked to do so by them. Do not use the process to pursue a personal grievance.

- You may be mistaken or there may be an innocent or good explanation – this will come out in the investigation. The process may be complex and you may not be thanked immediately and the situation may lead to a period of disquiet or distrust in the organisation despite your having acted in good faith.

- Where there is clear evidence of a theft of physical assets or cash, the police should be notified immediately.

2.2 Reporting your suspicions

The following reporting lines are to be used regardless of the potential magnitude of the fraud, which it would be difficult to quantify at an early stage. 2.4 overleaf illustrates the thought processes to be considered in determining the most appropriate reporting route. The following points may be useful

- **Your line manager**
  Generally this is your first port of call. Fraud prevention is their responsibility in particular. They will know the systems, the people, what is at risk. They should know whom to bring in.

- **A more senior manager or your Director**
  If you think your manager might be involved in the fraud or if you feel they have wrongly dismissed your concerns, then you should go to a more senior manager or your Director.

- **Fraud reporting email / internet**
  If you do not wish to make the report directly to your line manager, the Council has in place electronic methods of reporting your concerns. If you want to be assured of absolute confidentiality or wish to remain anonymous, you can report to the Head of Internal Audit using fraud@nottinghamcity.gov.uk, or use the reporting buttons available on the Council's websites.

- **Whistleblowing**
  The Whistleblowing Policy on the intranet provides advice on reporting criminal acts (such as fraud). You should acquaint yourself with this policy before deciding to report the incident under the policy or as a fraud. If you wish to make a report under this policy you should contact the appropriate person identified in the policy who will then liaise with the Monitoring Officer or Head of Internal Audit. You may of course access the Monitoring Officer or the Head of Internal Audit direct or use the appropriate electronic mechanism on the Council's websites. Provided reports are made in good faith, you are protected by the Council and the law against retribution, harassment or victimisation and your confidentiality will be preserved.

2.3   **Guidance for line managers on receiving a report of fraud:**

- Listen to the concerns of your colleagues and treat every report you receive seriously and sensitively. Make sure that all colleagues concerned are given a fair hearing.

- You should reassure your colleagues that they will not suffer because they have told you of their suspicions.

- Obtain as much information as possible from the colleague. Do not interfere with any evidence and make sure it is kept in a safe place.

- Request the colleague to keep the matter fully confidential in order that senior management are given time to investigate the matter without alerting the suspected/alleged perpetrator.

- Report the matter immediately to the Head of Internal Audit who will arrange a full investigation of the matter and ensure an appropriate response is made.

2.4 Decision Tree and Actions

Identified a Potential Fraud or Whistleblowing issue?

Refer to Financial Regulations and Whistleblowing Policy

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┌─────────────┐                    ┌─────────────┐              ┌──────────────┐
│  Do you      │        N          │ Suspicion    │      Y       │  Use the      │
│  suspect     │──────────────────▶│ of mal  or   │─────────────▶│ Whistleblowing│
│  fraud?      │                   │ dangerous    │              │  route        │
└─────────────┘                    │ practice?    │              └──────────────┘
       │ Y                         └─────────────┘                      │
       ▼                                  │ N                           │
┌─────────────┐                           ▼                             │
│  Do you need │      Y         ┌────────────────────┐                  │
│ confidentiality│─────────────▶│ Make Anonymous      │                 │
│ or anonymity?│                │ report or   use     │                 │
└─────────────┘                 │ Whistleblowing      │                 │
       │ N                      │ policy to report    │                 │
       ▼                        │ issue               │                 │
┌──────────────┐    N           └────────────────────┘                  │
│ Report to line│◀──┌─────────────┐        │                            │
│ manager for   │   │  Is your     │        │                           │
│ action and    │   │  line        │        │                           │
│ referral to   │   │  manager     │        │                           │
│ Head of       │   │  implicated  │        │                           │
│ Internal Audit│   └─────────────┘        │                           │
└──────────────┘          │ Y              │                           │
       │                  ▼                 │                           │
       │         ┌──────────────┐          │                           │
       └────────▶│ Notify        │          │                           │
                 │ responsible   │          │                           │
                 │ directors or  │          │                           │
                 │ Head of       │          │                           │
                 │ Internal Audit│          │                           │
                 └──────────────┘          │                           │
                        │                   ▼                           │
                 ┌──────────────┐   ┌──────────────────┐                │
                 │ Activate the  │   │ Head of Internal  │◀───────────────
                 │ Fraud         │──▶│ Audit / Monitoring│
                 │ Response Plan │   │ Officer Co-       │
                 └──────────────┘   │ ordinate response │
                                    └──────────────────┘
```

3 Fraud Response Plan

3.1 Introduction

It is important that managers and others know what to do in the event of a fraud so that they can act without delay. The Fraud Response Plan covers the action required when fraud is suspected and to whom the fraud or suspicion should be reported. The Fraud Response Plan is a guide to how and by whom the fraud suspicion will then be investigated, reported and closed.

The Fraud Response Plan provides an outline of many of the areas that will need to be considered when investigating a large and complex fraud. For smaller less complex frauds, there will be parts of the plan that will not be applicable. It is however important to keep an open mind and consider whether a small fraud is concealing a much larger fraud.

3.2 Immediate Action
All cases must be notified to the Head of Internal Audit and may also be reported to the Director or Line Manager

The Head of Internal Audit will ensure that all suspected fraud is recorded in □the Fraud / Whistleblowing Register and updated as the investigation progresses (see appendix 5).

3.3 Head of Internal Audit - Fraud Response

The Head of Internal Audit will arrange for the most appropriate response, including the provision of investigative resources from the department and where required from Internal Audit and the Legal Service. For small or less complex frauds, a large investigative resource may not be required, but the Head of Internal Audit should always be kept informed of progress at all stages of the investigation.

- Investigative Resources should be established as part of agreeing and signing off the Fraud Response Plan.
- Investigators should quickly determine the following:
  - whether an investigation is necessary
  - who will lead the investigation (the person chosen to lead the investigation should be appropriately experienced and independent of the activity affected by the alleged fraud).
  - any necessary additional resource to support the investigation
  - any immediate need for police involvement
  - any additional support requirements (eg IT facilities, a secure room, secure fax and phone facilities, administrative support etc)
  - any immediate need for legal advice
  - any immediate need for external, technical advice or support (eg forensics)
  - any immediate need to establish a PR/media strategy for dealing with the case (both internally and externally)
  - any immediate need to suspend colleagues; conduct searches and remove access (eg to files, buildings, computers/systems etc)

- any immediate need to report the potential fraud externally (eg external auditors, tax authorities etc)
- whether insurers need to be informed
- whether the chair of the Audit Committee should be informed
- a timetable for the lead investigator to report back progress on the investigation.

- The objectives of the investigation should be documented and approved by the Head of Internal Audit at the outset. Likely objectives would be to:
  - establish if a fraud has taken place
  - identify the culprit(s)
  - establish the facts surrounding the fraud and ascertain total losses
  - remove the threat of further losses. (Note: in some exceptional cases it may be necessary to allow further losses, in order to gain additional evidence and increase the chances of successful criminal, civil, or disciplinary action. This should normally only be allowed under police guidance).
  - obtain sufficient evidence for successful disciplinary, criminal, or civil action
  - Certain action may need to take place immediately to prevent further losses.

- The Director/Head of Human Resources should be involved on any decisions and action regarding suspensions and removal of access to files, systems and offices.

- The date of the next meeting and review of the first investigation progress report should be agreed.

- The Head of Internal Audit should be updated on a regular basis, to oversee progress of the investigation and to take major decisions relating to the case.

3.4 The Lead Investigator's Plan

- The lead investigator should prepare an investigation plan, which should be submitted to the Head of Internal Audit for approval.

- The Plan should be fairly short term, as developments in the investigation will invariably result in changes. It should clearly show what work/tasks need to be completed, why they are necessary, by whom and by when.

- The Plan may cover some or all of the following:
  - identification and recording of the persons involved and facts of the case
  - handling internal and external communications
  - actions to prevent further losses
  - actions to secure evidence. Normally, evidence should be secured in a way that will be least likely to alert the suspect(s) or others
  - liaison with Human Resources and dealing with colleagues under suspicion
  - interviews to be conducted

- timetables for involving the police or other external experts
- analysis of evidence
- internal reporting (eg to Management Team, Audit Committee, etc)
- reporting to regulatory/government bodies and or the Police
- target dates for reporting back to the Head of Internal Audit

3.5 Communications during and after the investigation

The effectiveness of the Plan depends on good quality communication at all stages.

Internal communications
- Investigators need to ensure that everyone with a need to know is kept suitably briefed throughout the investigation and at the reporting, acting on findings and debriefing stages. Communication with any person(s) about whom concerns are raised needs to be conducted in accordance with the Council's HR policies. The person who raised concerns should be kept up to date, with due regard to confidentiality.

- There will always be a balance to be struck between communication and confidentiality therefore, those persons or categories of persons who need to know should be clearly identified at each stage of the Plan, so that assurances on confidentiality can be given where required

External communications
- Third parties who may need to be alerted or informed might include the Police, regulatory authorities, insurers, legal advisors and external auditors. The Plan should make clear who is mandated to communicate with these third parties, and under what circumstances.

- The Council is prepared for the fact that frauds may attract media attention and the Plan should identify which colleague is mandated to deal with the press and what action any other colleagues contacted by the press should take. The current media communication channels and procedures should be used where possible.

Inappropriate communication
The Plan should make clear any form of communication that is considered inappropriate, for example:
- discussing the case outside the Council
- confrontation between the person reporting the fraud and the suspected perpetrator(s). (Note that the Whistleblowing Policy provides assurances for the safety and confidentiality of the person making the report.)

3.6 Securing evidence

- ☐In securing and handling evidence it should be assumed that all evidence may need to be examined forensically and presented in court and should therefore be treated accordingly. (Even if criminal or civil action is not planned, it is sensible to adopt this approach.)

- Normally, all evidence should be kept securely under lock and key, with access limited to those working on the investigation. If necessary, locks to secure rooms

should be changed. Evidence should be handled appropriately and a record should be maintained of anyone handling it.

- Evidence such as computer data, transferable media, videotape etc, should only be handled by suitably trained and skilled personnel. Where there is any doubt, professional/Police advice should be sought.

- Where evidence, or other relevant information is to be shared with another body, careful consideration should be given to any data protection (confidentiality) requirements. Where there is any doubt, expert advice should be sought from the Council's Legal Services or Information Governance team.

- Evidence can take different forms and will need to be handled in different ways, for example:

Original Documents
- handle as little as possible
- put in protective folder and label the folder
- do not mark in any way
- assign responsibility to one person for keeping the documents
- keep a clear record of how and where the documents were obtained
- keep a record of anyone who subsequently handles the documents

Computer Held Data/Transferable Media
- keep secured in an appropriate environment
- data should only be retrieved from computers by those who are technically qualified

Photocopied Documents
- in some cases it may be preferable or necessary to leave original documents in situ and take photocopies for further analysis and investigation
- photocopies should be clearly marked as such
- photocopies should be signed and dated, and certified as a true copy of the original

Other physical evidence (including Video/DVD/CD Rom)
- keep secured in an appropriate environment (eg protective bag)
- videos should not be viewed until technical and legal advice is sought in order that they can be treated in accordance with the rules of evidence

External evidence
- There are potential external sources from which evidence or information to support an investigation can be obtained, such as the tax authorities, supplier records, government registers of companies, donor records etc.

3.7 Colleagues under suspicion

- It should always be remembered that an allegation of fraud may be unfounded and in order to respect the colleague and ensure good working relations after an investigation, any action taken, such as suspension, and interviewing should be handled very carefully.

- Suspension from work is an opportunity to protect both the employer and colleague, providing the necessary space and opportunity to plan the investigation, investigate the facts and speak to other colleagues without the colleague being present. It should be made clear that suspension is not a judgement.

- The key factors in deciding to suspend colleagues will normally be prevention of further losses and removal or destruction of evidence. In some cases, it may be preferable to not suspend even at the risk of further losses (eg to gather further evidence).

- Any colleagues under suspicion who are allowed to remain at work should be closely monitored. This may include: physical surveillance of movements, monitoring of IT usage, monitoring of telephone, email and internet usage etc. (Note: it is advisable to seek legal advice regarding the use of surveillance techniques, to ensure compliance with local laws such as the Regulation of Investigatory Powers Act in the UK).

- Where a suspect offers to resign during the investigative process the consequences must be considered and a decision to reject or accept the resignation made only after consultation with HR, Legal Services and the Head of Internal Audit. By accepting the resignation the Council's ability to investigate the incident and gain proper redress may be limited.

- Other matters to consider include:
  - A review of HR records (eg to check references, employment history, qualifications etc, but with due regard to any data confidentiality / protection requirements)
  - Searching the suspect's work area; desk, cabinets, files, computer etc
  - Restricting access by the suspect to files, computers etc.

3.8 Interviews/statements

- When interviewing colleagues under suspicion it must be made clear whether it is a formal interview or an informal discussion. It should be explained that you have no pre-set view, the suspicion should be outlined and the colleague given adequate time to respond.

- If it is decided that formal questioning is needed because involvement in a criminal offence is suspected, then Internal Audit should be consulted to consider whether the interview should be conducted in accordance with the principles of the UK Police and Criminal Evidence Act (PACE). Guidelines can be found on the Home Office Website.

- Interviews should only be carried out with the approval of senior management/the Head of Internal Audit.

- Early consideration should be given to Police involvement, or consultation.

- There are strict rules relating to tape recorded interviews and investigators must be suitably skilled and experienced, where these are used.

- Ideally, statements should be taken from witnesses using their own words. The witness must be happy to sign the resulting document as a true record – the witness can be given a copy of the statement if desired.

- It is very important to keep contemporaneous notes on file, in the event that they are needed for future reference (eg court, tribunal, disciplinary hearing). Such notes should always show: date of interview; time started; time finished; and be signed and dated by the interviewer.

3.9 Police involvement

- Discussions should take place with the Head of Internal Audit regarding the best course of action in each case. A decision will need to be made as to whether the case is reported to the Police but other alternatives should be considered, for example a private prosecution. For large-scale / serious frauds, it may be appropriate to inform the Chief Executive and ask the Police to attend meetings with the investigators, Head of Internal Audit and legal advisors.

- Where a decision is taken to pass the matter to the police, the lead investigator should prepare an evidence pack that can be handed to the police at the time the fraud is reported. The pack should include a summary of the fraud, highlighting (where known) the amount, the modus operandi, and the location, and including photocopies of key supporting documents and contact details of the person leading the investigation.

- Where practical a record of everything that is handed to the Police should be kept

- All contact with the police should be channelled through one person (ie the person leading the investigation). A record should be maintained of all contacts with the Police, the details of the officers, and the crime reference number.

- The Police have knowledge of similar cases of fraud and their advice should be sought regarding measures to prevent further losses or future incidents.

3.10 Prevention of Further Losses

- Once actual or potential losses have been identified it is important that effective and timely action is taken to prevent further losses. It may however be decided that a better standard of evidence can be obtained by allowing limited further losses.

- The person in charge of the investigation should, at an early stage in the process, complete a preliminary assessment of the potential for further losses and how best to prevent them. He should make recommendations to senior management as to what if any immediate actions are necessary.

- Actions taken at an early stage may have to be circumspect so as not to alert suspects who have yet to be suspended or cautioned. It may also be important not to lose or compromise the forensic value of data by precipitate action. It may nevertheless be necessary to act quickly eg to stop payments to suspects who are being investigated.

- As the investigation continues, and more information emerges, further recommendations for action may be needed. At the end of the investigation Internal Audit should review all the actions taken to prevent further losses and to report on this in the Review of Findings.

3.11 Recovery of Losses

Once the identity of the perpetrator(s) and the size of the fraud has been determined, management must consider whether or not any of the loss can be recovered and take any further action that is necessary. This may require advice from the Insurers.

Reimbursement offered during the investigation
- An individual may, in the course of an investigation, offer to repay the amount that has been obtained improperly. The person in charge of the investigation should neither solicit nor accept such an offer (as it may be construed as having been obtained under duress). The lead investigator should record any offer made and refer the individual to the Head of Internal Audit who in turn will consult with the Chief Finance Officer and Director of Human Resources.

Reimbursement offered during disciplinary or legal proceedings
- If an offer of restitution is made while disciplinary or legal proceedings are still under way, management must seek legal advice before such an offer is accepted.

Reimbursement after completion of disciplinary proceedings
- Where a colleague is to be dismissed, the manager should consider recovery of amounts due from any outstanding salary or expense payments. It will be necessary to take legal advice about the right to do this as it is unlikely to be clear in the colleague's contract of employment.

Recovery of loss
- Where the Council has suffered loss, restitution will be sought of any benefit or advantage obtained and the recovery of costs will be sought from individual(s) or organisations responsible for fraud.

- Where a colleague is a member of Nottinghamshire County Council's Pension scheme, and is convicted of fraud, NCC may be able to recover the loss from the capital value of the individual's accrued benefits in the Scheme, which are then reduced as advised by the actuary.

Court Order
- Where a criminal case is taken against an individual a formal claim for restitution (where the court orders the defendant to give up gains) or alternatively a compensation claim made within a proceeds of crime claim should be made

through the Police. Seek advice from Legal to determine the appropriate claim. Any monies due will be recovered via a Court Order.

Civil Action

- Funds lost due to fraud can be recovered from the perpetrator by suing them for damages in a civil court. The level of proof required in civil cases is lower than that required in criminal cases and management may regard a civil action as a more effective use of their time than trying to persuade the Police to investigate and the courts to prosecute. If this approach is successful the perpetrator will also have to pay the Council's legal costs. Seek advice from Legal to determine the appropriateness of the claim.

- A civil action can still be brought even if a criminal prosecution has failed. If a criminal prosecution is successful a civil action may be necessary to force the person convicted to repay the sums stolen.

- It is important to remember that the person being sued may be unable to make the repayment. In situations in which repayment is unlikely senior management approval should be obtained before additional legal costs are incurred.

Commercial Negotiation

- Where the fraud has been committed by the employee of a contractor or supplier, all or part of the loss may be recoverable from the business concerned. It may be possible to reach an agreement that the loss can be deducted from any outstanding debts or that additional goods/services will be supplied free of charge.

- Third parties may want to agree a negotiated settlement in order to retain the goodwill of their customer and/or to avoid damaging publicity and legal costs. They may subsequently be able to recover these costs from their employees or their insurers

Insurance

- The insurers should be informed as soon as a suspicion is raised. In certain circumstances it may be possible to make a claim against the insurers. The person who led the investigation should provide the insurers with any information that is required to substantiate a claim, or to support an attempt by the insurers to secure recovery from the perpetrator.

3.12 Administration

- Careful administration of the investigation is of vital importance. A disordered investigation, without clear records and logs of events, communications, key dates etc, will cause problems at any court hearing, employment tribunal, or disciplinary panel.

- Maintain a chronological record of all events on a main file. This should include all correspondence, telephone calls and emails sent/made and received, interviews, visits, tests/checks undertaken etc.

- Maintain a list of all contacts (eg internal, Police, lawyer, donors/funders, peer organisations, government bodies, and technical advisers).

- Maintain a list of emergency contact numbers and ensure that this is shared with all those on the list.

- Maintain a log of anyone who handles evidence obtained, including the Police.

- Consider whether there is a need for: dedicated administrative support; dedicated phone and email address; secure fax machine; secure room etc.

- Do not keep any unnecessary records or copies. Carefully shred any papers that are not needed (eg extra copies of progress reports).

- Establish internal and external communication protocols. Discourage the use of email to communicate sensitive information; avoid internal mail and hand deliver highly confidential information, opting for double-enveloped post for less sensitive information. Where email is used for communication, consider entering subject names that have no direct link to the investigation.

- Provide update reports as appropriate to the Head of Internal Audit

3.13 Reporting

- Every investigation of suspected fraud or financial irregularity should result in a report written by the person who led the investigation. This should be done regardless of whether any colleagues are dismissed or prosecutions made and details entered in the fraud register.

- The register will record the scale of the fraud, when and how it was perpetrated and by whom. In addition the report will record; what action has been taken against the perpetrator, the actions to prevent further similar losses and to recover what has been lost. It will also usually be pertinent to note how the fraud was detected and whether or not existing controls were effective.

- Since the report may be used internally for disciplinary hearings or externally for civil or criminal proceedings, conclusions and opinions should be substantiated by evidence.

- It is important to strictly limit the distribution of the report. Copies will not be provided automatically to suspects or their representatives. If a disciplinary hearing takes place the individual and their representative may be entitled to receive a copy subject to obtaining legal advice.

3.14 Review, communication and action on Findings

Review of Findings
- The findings reported by the person in charge of the investigation should be reviewed by relevant managers and, in particular, the lessons learned to avoid future frauds.

- Senior Managers should satisfy themselves that, so far as is practically possible, a similar fraud could not occur again and /or the amount of potential loss has been minimised, the perpetrators have been properly dealt with and recovery has been pursued robustly.

- Managers and supervisors should be disciplined if they have not properly enforced existing controls and procedures.

Communicating outcomes
- Responsibility for communicating findings and actions to those involved and others who need to know should be set out in the Plan. The Council will hold a debriefing once outcomes have been finalised, to ensure that proper closure has been achieved.

- It may be necessary to manage the expectations of the person who raised concerns. The Whistleblowing Policy provides guidance on what may be communicated.

Action on Findings
- Any actions arising from the final report should be allocated to named individuals with appropriate due dates for completion.

- The final details of the fraud should be added to the entry in the Fraud Register.

3.15 Closure

Communication that the case has been closed
- It is important that any decision to close the case is clearly documented and communicated to those involved.

- The case may be closed for a number of reasons, including:

  - All action points that arose from the final report have been completed.
  - The Head of Internal Audit decides there is insufficient evidence to support the allegations.
  - The Council does not wish to incur further costs investigating the case.
  - The decision to close the case and the reason for doing so should be documented by the person leading the investigation and should be added to the investigation file and the fraud register.

Learning from experience
- Following completion of the case, the Head of Internal Audit will prepare a summary report on the outcome and lessons learned, circulating it to all other relevant parties who must take the appropriate action to improve controls to mitigate the scope for future recurrence of the fraud or theft.

Archiving
- All documents associated with the investigation should be archived in a secure location with adequately restricted access.

- Any redundant documents and papers, or duplicate copies, should be carefully shredded.

Appendix 1 - Examples of fraud

Theft: the illegal taking of someone else's property without that person's freely-given consent. Apart from the obvious theft of Council physical assets such as computers, shop stock and money, it includes:
- Misappropriation of funds
- Misuse of assets, including cash, stock and other assets, for example "borrowing" petty cash, use of photocopiers for private purposes
- Theft from a client or supplier
- Theft of intellectual property (eg unauthorised use of the Council name/logo, theft of product/software designs and client data

Bribery: this implies a sum or gift given or sought that alters the behaviour of the person in ways not consistent with the duties of that person. It includes offering, giving, receiving or soliciting any item of value in order to influence an action.

Corruption: this is a general concept describing any organised, interdependent system in which part of the system is either not performing duties it was originally intended to, or performing them in an improper way, to the detriment of the system's original purpose.

Deception: to intentionally distort the truth in order to mislead others. It would include obtaining property, services or pecuniary advantage by deception or evading liability. Deceptions include:
- misrepresentation of qualifications to obtain employment
- obtaining services dishonestly via technology eg where a credit card that has been improperly obtained is used to obtain services from the internet, or any other situation where false information is provided to a machine
- possessing, making and supplying articles for use in fraud via technology eg computer programs designed to generate credit card details that are then used to commit or facilitate fraud
- undeclared and unauthorised private and consultative work
- failure to properly declare interests that may materially affect the carrying out of their role
- failure to observe, or breaches of, established Council / Service policies, procedures, or practices, can in some circumstances constitute an irregularity
- money laundering (see below)
- providing misleading information in order to obtain funds, such as overstating activity

Forgery: this is the making or adapting objects or documents with the desire to deceive.

Extortion: this occurs when a person obtains money or property from another through coercion or intimidation.

Embezzlement: this is the fraudulent appropriation by a person to their own use of property or money entrusted to that person's care but owned by someone else.

False Accounting: this is dishonestly destroying, defacing, concealing or falsifying any account, record or document required for any accounting purpose, with a view to personal gain or gain for another, or with intent to cause loss to another or furnishing information which is or may be misleading, false or deceptive. It includes:

- Manipulation or misreporting of financial information
- Fraudulent completion of official documents (eg VAT receipts)

Conspiracy: this is an agreement between two or more persons to break the law at some time in the future. It includes breaches of regulations.

Collusion: the term "collusion" covers any case in which someone incites, instigates, aids and abets, conspires or attempts to commit any of the crimes of fraud.

Money laundering: this is the term used to describe the ways in which criminals process illegal or 'dirty' money derived from the proceeds of any illegal activity (eg the proceeds of drug dealing, human trafficking, fraud, theft, tax evasion) through a succession of transactions and deals until the original source of such funds has been obscured and the money takes on an appearance of legitimate or 'clean' funds.

There are three internationally accepted phases to money laundering:

Placement – this involves the first stage at which funds from the proceeds of crime are introduced into the financial system or used to purchase goods. This is the time at which the funds are most easily detected as being from a criminal source. Such 'dirty money' will often be in the form of cash or negotiable instruments such as travellers cheques.

Layering – this is where the funds pass through a number of transactions in order to obscure the origin of the proceeds. These transactions may involve entities such as companies and trusts (often offshore).

Integration – this is when the funds are available via a legitimate source and allow the criminal to enjoy access to the funds again, with little fear of the funds being detected as being from a fraudulent source.

Appendix 2 - Terrorist Financing (Terrorism Act 2000)

Under the Terrorism Act 2000 the assets of charities can be frozen if they are shown to have funded terrorists. Colleagues should therefore be aware of terrorist organisations posing as legitimate entities which can conceal the diversion of funds to terrorist organisations.

Example 1:
An employee working for a charity used his occupation to support the on-going activities of a known terrorist organisation. The employee had secretly made contact with those involved in terrorist activity and used his position to hide weapons and bomb making equipment.

Example 2:
An employee working for a charity obtained surplus funds from the Council to fund terrorism by padding the number of children it had claimed to care for by providing the names of children who were either dead or did not exist. Funds were then diverted to local terrorist organisations. The charity also employed members of the terrorist organisations and facilitated their travel.

Appendix 3 - Examples of controls to prevent and detect fraud

- Thorough recruitment procedures.
- Physical security of assets.
- Clear organisation of responsibilities and reporting lines.
- IT access controls over data
- Adequate staffing levels.
- Supervision and checking of output.
- Separation of duties to ensure that key functions and controls are not performed by the same colleague.
- Rotation of colleagues.
- Random spot checks by managers.
- Regular activity by auditors.
- Complete and secure audit trails.
- Performance monitoring by management.
- Budgetary and other financial reports.
- Reviews by independent bodies such as the Audit Commission and Internal Audit.
- Data matching.

Appendix 4 - Warning signs for fraud

There are warning signs that can indicate a fraud may be taking place eg:

- Colleagues under stress without a high workload.
- Reluctance to take annual leave.
- Being first to arrive in the morning and last to leave in the evening.
- Refusal of promotion.
- Unexplained wealth.
- Sudden change of lifestyle.
- Suppliers/contractors who insist on only dealing with one colleague.
- A risk taker or rule breaker.
- Disgruntled at work/not supportive of organisations mission.
- Colleagues with serious financial problems.
- Colleagues whose lifestyle is disproportionate to their income.
- Unusual concerns about visits made by senior managers or auditors.
- Colleagues who often break the rules or fail to comply with procedures.
- Managers/colleagues who cut corners.
- Complaints about colleagues from customers or other colleagues.
- The lack of effective internal controls in an area.
- Unexplained falls in income levels or increases in expenses.
- Deliveries of stocks or orders to other buildings or non-Council buildings.
- Increases in the number of insurance claims.
- A general disregard by management and colleagues towards security.

Fraud Indicators can include:

- Colleagues exhibiting unusual behaviour (see list above).
- False entries in attendance records such as flexi sheets.
- Missing key documents (invoices/contracts).
- Inadequate or no segregation of duties.
- Documentation which is photocopied or missing key information.
- Missing expenditure vouchers.
- Excessive variations to budgets/contracts.
- Bank and ledger reconciliations not regularly performed and balanced.
- Unexplained or unreasonable balancing items in reconciliations.
- Numerous adjustments or exceptions.
- Overdue pay or expense advances.
- Duplicate payments.
- Ghost colleagues on payroll.
- Large payments to individuals.
- Crisis management coupled with a pressured work environment.
- Lowest tenders or quotes passed over without adequate explanation.
- Single vendors.
- Climate of fear/low colleague morale.
- Consistent failure to implement key controls.
- Management frequently overriding controls.

Appendix 5 - Fraud / Whistleblowing Register

The Fraud Register contains the following headings:

- Logged By
- Reference Number
- Referred By
- Date Referred
- Details of Referral (Brief)
- Contact Details
- Reported to Monitoring Officer
- Date Acknowledgement letter sent
- Agreed By
- Date Agreed
- Investigating Officer
- Stage / Status of Investigation Outcome
- Date Outcome Reported to Monitoring Officer
- Date Outcome reported to the Whistleblower
- Type of Whistleblowing Date action taken after case finished
- Type of fraud
- Value (£)
- Brief details of the fraud / corruption
- Fraud or Corruption
- Did the case involve an employee or a Councillor?
- Was the person prosecuted?
- Guilty Outcome?
- Outcome
- Perpetrator
- Type of Fraud

Nottingham City Council

Data Matching Strategy and Policy

Nottingham City Council October 2011, updated November 2013

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DATA MATCHING STRATEGY

1. Introduction

1.1 Nottingham City Council is committed to providing the best possible service to its citizens by continually making improvements and utilising resources efficiently and effectively. The Council has access to vast amounts of information and, by making better use of this information across the Council it can enhance services, increase income and work efficiently.

1.2 The ability to match data across the many Council databases can highlight gaps in service provision, identify possible fraudulent activity or streamline processes. The Audit Commission under its statutory powers has collected data from many public bodies to carry out data matching exercises for the prevention of fraud. This National Fraud Initiative (NFI) has already proved successful by identifying frauds of £664M since its inception in 1996 and £215M in 2008/09. Such has been the success of the initiative that 300 private sector clients now use the service.

1.3 Within the Council, Internal Audit uses data matching techniques in the course of some of its audit investigations. Following the success of data matching exercises it is appropriate that its use be expanded to support the enhanced use of information in the most efficient and effective way to improve the delivery of the service. It is a key objective of Internal Audit to enhance the Council's ability to proactively seek out fraud and error through rigorous, programmed data matching exercises and data mining on areas identified as high risk. Internal Audit will also be seeking a more targeted approach through the better use of intelligence.

1.4 Looking forward, Internal Audit's vision is to expand the use of data matching techniques to include activity on data from other relevant public sector bodies.

2. The key objectives of the Data Matching Strategy

The key objectives of the strategy are:

- Nottingham City Council is committed to the prevention, detection and investigation of all forms of fraud and corruption. Continuous use of data matching in conjunction with auditing will be a pro-active approach to identifying and where possible preventing fraud and corruption. It will:
  - Provide an effective internal control and a means of helping to prevent or identify fraudulent or corrupt activities.
  - Develop an internal tool to help identify errors, inconsistencies, irregularities and risk to financial resources within the Council.
  - Ensure that the Council fully utilises the data held within its systems to best possible effect.
  - Aid the audit planning process and other audit projects.
  - Improve the control environment within the Council.
  - Identify potential weaknesses in design and operation of internal controls that may be creating the risk of fraud or irregularities occurring.

- Identify potential weaknesses in the design of Information Systems that currently may not provide adequate assurances that they will prevent error or fraud.

- The Council is committed to ensuring its citizens have access to all services they are entitled to. The interrogation of data can highlight areas where there are gaps in service.

- Act in accordance with legislative obligations under the National Fraud Initiative.

- The audit process should be enhanced by:
  - improving the audit planning process and deployment of Audit colleagues
  - using the matching and interrogation of data to highlight areas for further investigation
  - highlighting errors, inconsistencies, irregularities and/or financial risk

- The Council will work within the relevant legislative framework including the Data Protection Act, and Nottingham City Council Information Security policies.

3. Scope of Data Matching

3.1 Data matching and analysis may be performed on any City Council data system.

3.2 Data matching and analysis may be performed on data received from other public bodies by agreement and within relevant legislation.

3.3 In exceptional circumstances data matching and analysis may be performed on data received from other external systems where deemed appropriate to the furtherance of the City Council's anti-fraud objectives and where relevant legislation permits.

3.4 Data matching will be performed routinely as part of our data matching plan, and also on an ad-hoc basis;

Routine Data matching – scheduled data matches may take place on a daily, weekly, monthly or quarterly basis. Datasets will be collected from core systems in accordance with the annual data matching plan.

Ad-hoc data matching – data matches may be required for work of a special nature when routine data matching activities would not be appropriate. Also, data collected for routine data matching activities may also be used as a by-product to drive and support the audit of large information systems.

4. Legal Basis for Data Matching

4.1 In order for the City Council to undertake data matching it must operate within the legislative framework. Internal Audit will work with colleagues in Information Governance and Legal Services to keep abreast of new or amended legislation and ensure the correct procedures are in place to drive improvement.

4.2   Data is currently matched under the following Legislation:
   ▪   National Fraud Initiative - Audit Commission Act 1998
   ▪   Benefit Counter Fraud – Social Security Act.

4.3   To support internal pro-active anti-Fraud activities, data matching takes place to assist the Section 151 Officer achieve their responsibilities. These are outlined in the Local Government Act 1972 and supported by the internal audit right of access stated in the Accounts and Audit Regulations 2011.

4.4   The City Council will adhere to the Data Protection Act by ensuring there are the relevant fair processing notices in place to inform the data subjects that data matching may take place to help detect and identify fraud.

5. Approach to data matching

5.1   Based upon information obtained from risk analysis work and audit work, an annual data matching strategy will be developed. The strategy will include routine data matching events and leave appropriate contingency to process ad-hoc data matches as their requirement occurs. Risk analysis will be performed from historical information, data trends and other sources of information. Areas with a high fraud risk profile will be targeted.

5.2   The balance of work carried out between routine and non-routine data matching will integrate with existing Nottingham Internal Audit planning objectives.

5.3   Routine data matching will be subject to one time approval. The approval will be reviewed on an annual basis to verify that it remains valid and appropriate. All approvals will require a justification to be produced, outlining the data requirements and data field definitions.

5.4   The overall approach to data matching consists of an extraction of data from any system or data warehouse held by the Council, and then subsequently cross matching or exception testing this data to another data set to help identify potential errors, irregularities or suspect matches.

5.5   Non-routine (ad-hoc) data matches will require approval from the Head of Internal Audit each time a data match is carried out. This will be done prior to approaching the data owner.

6. Retention of data

6.1   The City Council will ensure that data is not held for longer than is necessary for the purpose it was obtained. In establishing retention and archiving periods we will consider both the possibility of complaints and the legal requirements.

6.2   All successful data matches that result in a fraud referral will be documented and retained in line with normal operating procedures.

6.3   Datasets used to carry out data matches will be retained for a maximum of six months after their planned use, subject to the need to conserve evidence.

6.4   All data refreshes will take place on a regular basis ie daily, weekly, monthly or quarterly as relevant to operational needs. Consequently, as the existing dataset will be overwritten, data will only be retained until the following scheduled refresh occurs.

7. Storage of data

7.1   Data is held in secure computer files, which have restricted access.

7.2   Manual records will be held securely in locked filing cabinets.

7.3   Output reports and files that do not highlight a match will be securely destroyed.

7.4   Once the data matching exercise has been completed the extracted source data file will be deleted. Matches which do not identify fraudulent activity will also be deleted. Matches which subsequently highlight fraudulent activity will be maintained for analytical review.

8. Links to Audit Controls and Risk Registers

8.1   Where significant fraudulent activities have occurred through poor system controls, the details will be fed to both the directorate and team responsible, and into the relevant risk register.

8.2   Details will be recorded by Internal Audit to help assess the implications on the annual assurance statement and for future trend analysis.

9. Management Action

9.1   The Head of Internal Audit will make arrangements for follow-up of all positive data matches where a fraud has occurred but no action has yet been taken against the perpetrator(s) of the fraud.

9.2   If no action is taken by a line manager when a fraud or irregularity is proven, the Head of Internal Audit reserves the right to review the fraud circumstances and refer the matter to the City Council's Audit Committee.

DATA MATCHING POLICY

1. Introduction

1.1 Nottingham City Council is committed to quality service provision, reducing the number and value of errors, and reducing the level of financial risk and is continually looking to introduce more efficient and effective techniques to combat fraud. Processes within Internal Audit are designed, where practicable, to add value through techniques including data matching.

1.2 The benefits of data matching are well documented through government initiates such as the National Fraud Initiative (NFI) run every two years by the Audit Commission. The NFI forms part of the statutory external audit process for councils, Police and fire authorities in England and Wales. Data matching under the NFI is a legal requirement and audited bodies and other participating organisations supply data for cross-matching between systems to identify cases where fraud may be occurring. Data matching has also been used to identify inconsistencies, for example, where similar information is stored in two different systems and errors resulting from data input.

1.3 Investing in improvement is a key priority for the Council to help it to manage resources economically, efficiently, effectively, flexibly and responsively. Consequently, errors or fraud identified via the data matching route will also help the Council to improve services and the internal control environment, supporting the Council's aspiration to be one of the best run Local Authorities in England.

1.4 Performing data matching and data analysis internally and informing suppliers, partners, colleagues and citizens that it is being carried out may act as a deterrent and create an anti-fraud and corruption culture within the City Council.

2. Definitions

2.1 Data Matching – The computerised comparison of two or more data sets which relate to the same or similar individuals or elements to identify similarities or differences.

2.2 Data Analysis – The process of examining data with the aim of extracting some useful information and identifying anomalies.

2.3 Continuous Auditing – The method that is used to perform control and risk assessments in an automated manner on a more frequent schedule.

3. Purpose of Policy

3.1 To ensure that a consistent data matching approach is adopted across Nottingham Internal Audit by making effective use of a clearly defined strategy and procedures.

3.2 To establish procedures that ensure data matching and analysis is conducted in a controlled, robust and approved manner.

4. Principles of data matching

4.1 The Council will only match and analyse data where relevant legislation permits, in order to avoid unlawful processing of data.

4.2 Data extracted will be obtained in accordance with the Data Protection Act (1998) and, where required, with the consent of the data owner.

4.3 To support the Council's determination to reduce fraud and error it will be Council policy to include a standard declaration in forms or input screens concerning the potential use of data provided to the Council in data matching exercises.

4.4 Only data actually needed to perform the data matching exercise is collected and processed.

4.5 Data matches will be fed into a structured and prioritised programme of activity.

4.6 Source and matched data is only seen by colleagues who need it in the course of their duties.

4.7 The results of a matching exercise do not automatically imply that fraudulent activity has taken place. It highlights areas for further investigation. The investigation team will conduct a thorough review of all results and ensure the accuracy of the data.

4.8 Data found to be inaccurate will be corrected in an appropriate manner so that decisions affecting individuals highlighted in the data matching routine are made on the basis of reliable and up to date data.

4.9 Data matching processes will be refined for future use where indicated by a review of results.

4.10 Data matching outputs are fed, where relevant and appropriate, into the Internal Audit planning process.

4.11 Source data and matched data outputs are protected from unauthorised or accidental disclosure.

4.12 Data is retained only for as long as it is required.

5. Approval

5.1 This policy forms part of the Council's Counter Fraud Strategy which is approved by the Council's Audit Committee.

5.2 The Head of Internal Audit will maintain the policy and review mechanisms set in place to ensure its principles are delivered.

6. Compliance

6.1 Compliance with the policy will be required as part of the Council's Counter Fraud Strategy.

6.2 All relevant colleagues should receive appropriate training to provide an assurance that this policy is understood and followed effectively.

7. Data Retention and Disposal

7.1 Data retention/disposal standards will be in line with Council Information Security Policies.

7.2 Personal information will be safeguarded from accidental and deliberate threats to confidentiality and integrity

8. Policy Review

This policy will be reviewed by the Head of Internal Audit periodically and when relevant legislative changes are enacted.

9. Contact Officer / Guidance

For clarification or guidance in connection with this policy, please use the following contact details

Shail Shah - Head of Internal Audit
Tel: (0115) 8764245
email:shail.shah@nottinghamcity.gov.uk

Counter Fraud Strategy for Schools

1. Background

This Strategy identifies Nottingham City Council's overall arrangements relating to its responsibilities on fraud and corruption. The Governing Body, through the Head Teacher, have a responsibility to bring the policy to the attention of employees, and employees are expected to be aware of the requirements of the policy and at all times to comply with it.

It describes the school's policy for notification, investigation and reporting upon circumstances which may involve fraud, corruption and irregularities.

It is intended to supplement the Scheme for the Financing of Schools, Financial Regulations, Code of Conduct for Employees, Manual of Financial Guidance and the Financial Administration and Control Policy.

Any investigations carried out in relation to irregularities are entirely separate from, and do not form part of, the schools disciplinary procedures. However, the timing of the commencement of any disciplinary procedures needs to be taken into account where an investigation into an irregularity is taking place, so as not to prejudice the irregularity investigation.

Following the completion of an irregularity investigation and subsequent report, it is possible that the Head Teacher or Chair of Governors may initiate action, in accordance with the school's disciplinary procedures or referral to the Police.

2. Counter Fraud in Context

Fraud is defined under the Fraud Act 2006 as dishonest false representation or abuse of position with the intention of making a gain or causing a loss or a risk of loss to another. For the purpose of this Strategy the term is also used to describe a number of offences under former and current legislation, including deception, forgery, theft, misappropriation, collusion, bribing and being bribed, conspiracy, money laundering, offences under the Identity Cards Act 2006, possession and making or supplying of articles for use in fraud or obtaining services dishonestly.

Therefore, 'fraud' can be used to describe a multitude of offences. In administering its responsibilities to protect public funds and assets, the School has developed this Strategy to deter fraud whether it is attempted from outside or within the School. In essence the main areas of concern are:-

- Fraud – the intentional distortion of financial statements or other records by persons internal and external to the school, which is carried out to conceal the misappropriation of assets or otherwise for gain.
- Bribery and corruption – the offering or the acceptance of a reward, for performing an act, or for failing to perform an act, which leads to gain for the person offering the inducement.

This Strategy aims to protect public funds and assets by requiring compliance with regulations, rules, procedures, and guidance designed to encourage the prevention of fraud, promote detection and identify clear responsibility for investigations. The impact of the Strategy will be to ensure that School resources are not diverted away from delivery of school objectives.

Irregularities, and circumstances which may involve irregularities, are a difficult area and pose a number of problems. Where there is doubt about whether a matter is an irregularity or not, clarification must be sought from the Head of Internal Audit.

Similarly, if there is concern or doubt about any aspect of a matter which involves an irregularity, or an ongoing investigation into a suspected irregularity, the best approach is to seek advice/guidance from the Head of Internal Audit.

3. Culture

The Governing Body is determined that the culture and tone of the school is one of honesty and opposition to fraud and corruption. This Strategy is a clear message from the Governing Body that it will endeavour to take all possible steps to prevent and eliminate fraud and corruption. It identifies a clear path for both Governors and employees to report any suspicions of fraud and corruption without any fear of discrimination.

There is an expectation and requirement that all individuals and organisations associated in whatever way with the school will act with integrity, and the school employees at all levels will lead by example in these areas. The Governing Body also demands that individuals and organisations that it comes into contact with will act toward the school with integrity and without thought or actions involving fraud or corruption.

The school's Counter Fraud Strategy is based on a series of comprehensive and inter-related procedures designed to frustrate any attempted fraudulent or corrupt act.

The School is also aware of the high degree of external scrutiny of its affairs by a variety of bodies' including:-

- Parents;
- Local tax payers;
- Service Users;
- External Auditor;
- Examination Boards;
- Parliamentary Committees;
- Government department and Inspectorates;
- HMRC;
- OFSTED

The school's employees are an important element in its stance on fraud and corruption and they are positively encouraged to raise any concerns that they may have on these issues where they are associated with the school's activity.

This they can do in the knowledge that such concerns will be treated in confidence and properly investigated. If necessary, a route other than through the Head Teacher may be used to raise such issues. Such routes are set out in the Confidential Reporting Policy (Whistle Blowing) and include:-

- Immediate Supervisor;
- Chair of Governors;
- HR Business Partner;
- Corporate Director, Children & Families;
- Director of Resources;
- Head of Internal Audit

Citizens are also encouraged to report concerns through the Council's Comments, Compliments, Complaints (Feedback) Procedure or the Council's Report a Concern facility, details of which are available from the City Council's web site. Citizens may also report concerns using the fraud hotline by dialling 0115 8764243.

The Governing Body and the Head Teacher are responsible for following up any allegation of fraud or corruption received and will do so through clearly defined procedures:-

- dealing promptly with the matter;
- recording all evidence received;
- ensuring that evidence is sound and adequately supported;
- ensuring security of all evidence collected;
- notifying the Director of Children and Families, Director of Resources and Head of Internal Audit and
- implementing school disciplinary procedures where appropriate and informing the Police.

Any abuse of this process by raising unfounded malicious allegations is a serious disciplinary matter.

The school can be expected to deal swiftly and thoroughly with any member of staff who attempts to defraud the school or who is corrupt. The Governing Body should be considered as robust in dealing with financial malpractice.

4. Methods of Preventing and Detecting Fraud

Generally there is an expectation by the Council that the Governing Body and colleagues will lead by example in ensuring adherence to legal requirements, rules, procedures and practices. It is also expected that individuals and organisations that the school comes into contact with, will act with integrity and not take part in any fraudulent or corrupt activity.

The Governing Body recognise that a key preventative measure in the fight against fraud and corruption is to take steps at the recruitment stage to establish, as far as possible, the previous record of potential employees in terms of their propriety and integrity. Staff recruitment is therefore required to be in accordance with the Recruitment and Selection Guidance and in particular to obtain written references

regarding known honesty and integrity of potential employees before employment offers are made.

School employees are expected to follow the Code of Conduct related to their personal professional qualifications and also abide by the National Code of Conduct. The role that colleagues are expected to play in the school's framework of internal control, should be featured in employees induction procedures.

All Governors and employees of the school are required to declare in a public register any interests or offers of gifts or hospitality which are in any way related to the performance of their duties in relation to the school.

Governors and employees must comply with the Council's Regulations. These standing orders and financial regulations place a duty on all employees to act in accordance with best practice when dealing with the affairs of the school and notify the Director of Children & Families and the Head of Internal Audit immediately, of all suspected irregularities affecting the well being, finances or property of the school and council.

Significant emphasis is placed on the thorough documentation of financial systems, and every effort is made to continually review and develop these systems in line with best practice to ensure efficient and effective internal controls. Internal Audit appraises the adequacy and appropriateness of the school's financial systems. The Governing Body places great weight on being responsive to audit recommendations.

In addition to the above, the school will participate fully in other controls / mechanisms the City Council has in place to detect and prevent fraud including National Fraud Initiative

5. Detecting and Investigating

The array of preventative systems, particularly internal control systems, within the school has been designed to provide indicators of any fraudulent activity, although generally they should be sufficient in themselves to deter fraud.

It is often the alertness of employees and the public to such indicators that enables detection to occur and the appropriate action to take place when there is evidence that fraud or corruption may be in progress.

Despite the best efforts of Governing Bodies, Head Teachers and Auditors, many frauds are discovered by chance or 'tip-off', and the school has in place arrangements to enable such information to be properly dealt with.

Notification should be given to the Head of Internal Audit (Telephone 0115 8764245) or fraud hotline (Telephone 0115 8764243), who will provide the appropriate advice regarding the conduct of any investigation. Any concerns should be reported immediately in the knowledge that such concerns will be treated in confidence and properly investigated. **Appendix A** to this Strategy outlines the decision process involved.

No investigation / action should be taken by the Head Teacher or Governing Body before the Director of Children and Families has been informed, and the Head of

Internal Audit has been advised of the situation. Head of Internal Audit will take such steps as it considers necessary after taking into account the views of the Director of Children and Families.

Depending on the nature and anticipated extent of the allegations, the Head of Internal Audit will normally work closely with the Head Teacher or Governing Body, Human Resources and other agencies (such as the Police), to ensure that all allegations are properly investigated and reported upon and, where appropriate, maximum recoveries are made for the school and Council. The Head Teacher, Governing Body, Director of Children and Families, Director of Resources, Head of Internal Audit and the Chief Executive will be kept briefed as the investigation continues.

If the investigation is into a significant or sensitive manner, the Chief Executive, in conjunction with the Director of Resources, will inform the appropriate persons, subject to the investigation not being prejudiced. The information given at this stage will normally be restricted to the fact that an investigation has commenced into a particular school.

Where allegations are sustained, the employee will be subject to the school's disciplinary procedures.

Where financial impropriety is discovered, it will be referred to the Police and prosecution pursued. Formal referral to the police is a matter for the Director of Resources. Any exception to this clause may only be made by the Director of Resources in consultation with the Chief Executive, Director of Children and Families and Head of Legal Services.

6. Training

The Governing Body recognises that the continuing success of the Counter Fraud Strategy and its general credibility will depend largely on the effectiveness of programmed training and responsiveness of employees throughout the school.

To facilitate this, the Governing Body supports the concept of induction and training particularly for employees involved in internal control systems, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced.

Links with Other Policies

The Governing Body is committed to preventing fraud and corruption. To help achieve this objective there is a clear network of systems and procedures in place for the prevention, detection and investigation of fraud and corruption. This Counter Fraud Strategy attempts to consolidate those in one document and should be read in conjunction with the following School and Council policies, which may be obtained from the Head of Internal Audit, the Schools Finance Section, or by following the hyperlink where available.

Useful Policies and Guidance

- Confidential Reporting Policy (Whistle-Blowing)
  http://gossweb.nottinghamcity.gov.uk/nccextranet/index.aspx?articleid=10364
- Fair Funding Scheme and Financial Regulations
  http://www.nottinghamcity.gov.uk/nottinghamschools/index.aspx?articleid=5918
- Code of Conduct
  http://gossweb.nottinghamcity.gov.uk/nccextranet/index.aspx?articleid=10375
- Disciplinary Procedures – People Management Handbook
  http://gossweb.nottinghamcity.gov.uk/nccextranet/index.aspx?articleid=10366
- Financial Administration and Control Policy
  http://www.nottinghamcity.gov.uk/nottinghamschools/index.aspx?articleid=5918
- Manual of Financial Guidance
  http://www.nottinghamcity.gov.uk/nottinghamschools/index.aspx?articleid=5918

Decision tree where a Potential Fraud or Whistleblowing issue is suspected

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AUDIT COMMITTEE – 28 NOVEMBER 2014

Title of paper:	**INTERNAL AUDIT QUARTERLY REPORT 2014/15 - 2ND QUARTER**
Director(s)/ Corporate Director(s):	Geoff Walker Acting Director of Strategic Finance	**Wards affected: All**
Report author(s) and contact details:	**Author and contact officer** Shail Shah – Head of Internal Audit Tel: 0115 8764245 Email: shail.shah@nottinghamcity.gov.uk
Other colleagues who have provided input:	
Recommendation(s):	
1	Note the performance of IA during the period.
2	Select up to two audits from **Appendix 2** for examination at the February 2015 meeting.

1.   REASONS FOR RECOMMENDATIONS

This report outlines the work of the Internal Audit service (IA) for the 2nd quarter of 2014/15.

- **Appendix 1** - List of final audit reports with high risk recommendations issued in the period with scope, analysis of recommendations, details of high risk recommendations and level of assurance
- **Appendix 2 -** Analysis of findings in Final Audit Reports issued
- **Appendix 3** - Overview of the work completed to date against the updated Audit Plan

1.1   Standards

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.

1.2   Local Performance Indicators (PIs)

Performance against all PIs is illustrated in **Table 1**.

Table 1 : Performance v PI Targets					
	Indicator	Target	Period	Actual Year	Comments
1	% of all recommendations accepted.	95%	100%	100%	Above Target
2	% of high recommendations accepted.	100%	100%	100%	On Target
3	Average number of working days from draft agreed to the issue of the final report	8 days	1	4	Above Target
4	Number of key / high risk systems reviewed.	15 systems	0	0	Work underway and on target
5	% of staff receiving at least three days training per year.	100%	22%	22%	On Target
6	% of customer feedback indicating good or excellent service.	85%	100%	100%	Above Target

1.3 Activity

Table 2 shows that actual days achieved are in line with planned days set out in the updated Audit Plan and **Appendix 3** shows progress against the individual audits. In summary, after allowance for seasonal work patterns, the plan is on target.

TABLE 2: ACTUAL v PLANNED AUDIT DAYS		
Total Planned Days	Actual to date	Comments
1808	649	Variance due to vacancies, Easter and summer holidays. Audit Plan on track for year end completion.

Table 3 shows that in the year to date, acceptance of recommendations is above the target of 95% for all recommendations and is on target for high recommendations (100%).

TABLE 3: RECOMMENDATIONS ACCEPTED	To Date		Period	
	All	High	All	High
Total recommendations made	110	30	60	16
Rejected	0	0	0	0
Total recommendations accepted	110	30	60	16
% accepted	100%	100%	100%	100%

2.   BACKGROUND

The Audit Committee's terms of reference include responsibility for receiving reports on the work undertaken by IA and for monitoring its performance. The Public Sector Internal Audit Standards (PSIAS) set the responsibility for the management of Internal Audit 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. This report is one of the regular updates on work undertaken by the service.

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 2014/15
- Public Sector Internal Audit Standards 2012

FINAL AUDIT REPORTS WITH HIGH RISK RECOMMENDATIONS ISSUED IN PERIOD

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
Cantrell Primary and Nursery	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 : • Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements • School Fund • Income	Significant	1	4	4	01	The school should ensure that detailed minutes are taken at each of the Governing Body's sub-committees. The approval of policies and key decisions made by the Governors should be clearly recorded in the relevant meeting minutes.

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
Ellis Guilford Comprehensive	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 : • Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements • School Fund • Petty Cash • Income	Limited Assurance	8	8	3	01	The Financial Administration and Control Policy should be presented to Governors to be reaffirmed on an annual basis and this should be recorded in the minutes of the Governors' meeting.
						03	The Governing Body should review the SFVS after receipt of this report and satisfy itself that the responses are adequate or put in place remedial actions as required.

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
						06	The school should retain evidence that the benchmarking website has been used to: • Compare its performance to other schools • Identify areas for improvement and set targets where needed. The findings of the benchmarking activities should be discussed with Governors and this should be recorded in the minutes of the Governors' meeting.
						09	There should be a segregation of duties between the person preparing the staff payroll returns and the person authorising them.
						10	For all purchases over £10,000, the school should obtain at least 3

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
							alternative quotations or in the case of purchases or contracts with a value greater than £50,000 there should be a tender exercise. These should be considered by the Resources and General Purposes Committee before deciding which supplier to award the contract to. This should be documented in the minutes of the Governors' meeting.
						11	The school should ensure that it has robust purchasing procedures to ensure that authorised requisitions are passed to the school's finance assistant for an order to be raised to the supplier and then subsequently authorised by the School Business Manager.
						14	All invoices should be checked to ensure that the goods or services

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
							have been received and that they are arithmetically correct; once this has been confirmed the invoice should be authorised for payment by an appropriate person, ie, the School Business Manager.
						19	The school should ensure that income is entered correctly into the school's accounting software and it should work with the Local Authority's Schools Finance Team to determine the tax implications of the failure to declare output VAT accurately over a period of time.
South Wilford Endowed CE Primary	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 :	Significant Assurance	1	2	1	01	The school should ensure that termly meetings are held of the F&GP Committee and other sub-committees of the Governing Body. The minutes of any such

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
	• Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements • School Fund • Income						meetings should be reported to the full Governing Body for ratification. The Governing Body of the school may also wish to consider widening the membership of the F&GP to allow for a wider range of experiences to be brought to bear on the school's financial matters.
Personal Budgets – follow-up	As part of this year's plan, we have reviewed the implementation of 11 recommendations from two reports relating to Direct Payment Monitoring and a supplementary – "lessons learned" report resulting from several Direct Payment Frauds. Note: 9 of the 11 recommendations were found to have been implemented. One High Priority recommendation remains outstanding and has been listed.	Significant Assurance	5	6	0	05	Both Direct Payment teams should immediately institute systems to record and report cases of misuse of funds. The systems should record the value of any potential misuse, the actions taken to investigate the misuse and how much has been recovered, if applicable. The reported cases should be notified to internal audit on a monthly basis together

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
							with their outcomes.
Bank Reconciliation	The review covered the City Councils Main Bank Accounts and aimed to provide assurance that each account was subject to regular review and that there was a clear management trail to the supporting documentation.	Limited Assurance	1	0	0	01	Bank reconciliations are prepared on at least a monthly basis & reviewed & agreed by a senior finance manager

This table excludes any reports concerning irregularities

Appendix 2

FINAL AUDIT REPORTS ISSUED 1ST JULY TO 30TH SEPTEMBER 2014 – ANALYSIS OF FINDINGS

Department	Division	Activity Title	Audit Assurance	Accepted Recommendations		
				High	Medium	Low
Children and Adults	Children and Adults - Schools	Cantrell Primary and Nursery	Significant Assurance	1	4	4
		Ellis Guilford Comprehensive	Limited Assurance	8	8	3
		South Wilford Endowed CE Primary	Significant Assurance	1	2	1
		Walter Halls Primary and Early Years	Significant Assurance	0	3	3
	Children and Adults - Schools Total			**10**	**17**	**11**
	Adults Assessment	Personal Budgets – follow-up	Significant Assurance	5	6	0
	Adults Assessment Total			**5**	**6**	**0**
	Children and Adults Total			**15**	**23**	**11**
Development	Planning and Transport	Green Bus Funding	Grant	0	0	0
	Planning and Transport total			**0**	**0**	**0**
	Economic Development	Woodfield Industries	Significant Assurance	0	6	0
		Economic Funding Streams	Significant Assurance	0	2	2
	Economic Development			**0**	**8**	**0**
	Development Total			**0**	**8**	**2**
Resources	Strategic Finance	Bank Reconciliation	Limited Assurance	1	0	0
		Troubled Families Grant 2014 15 Qtr 1	Grant	0	0	0
	Strategic Finance Total			**1**	**0**	**0**
	Resources Total			**1**	**0**	**0**
			Grand Total	**16**	**31**	**13**

SUMMARY OF THE INTERNAL AUDIT PLAN TO SEPTEMBER 2014

Audit Outline / Management Direction	Days	Actuals
1. Strategic Risk Register	20	0
2. Corporate Services	195	44
3. Chief Executive	113	22
4. Children & Families	149	65
5. Communities	105	63
6. Development	184	83
7. Corporate Audits	220	83
8. Counter Fraud	141	56
9. Companies / Other Bodies	231	88
10. Consultancy, Advice and Support	410	125
11. Other Work	40	20
Total Days	1808	649

AUDIT COMMITTEE - 28 NOVEMBER 2014

Title of paper:	AUDIT COMMITTEE ANNUAL WORK PROGRAMME UPDATE	
Director(s)/ Corporate Director(s):	Geoff Walker 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 functions of the Audit Committee and the benefits arising from its existence	
2	Endorse the outline work programme at **Appendix 1**	

1.   REASONS FOR RECOMMENDATIONS

Although an Audit Committee is not a legal requirement it reflects best practice, reinforces the importance of probity and performance and risk management. This report outlines the core functions of the Audit Committee, the benefits that will arise for the City Council and an outline annual work programme.

Role of the Audit Committee

The purpose of an Audit Committee is to provide independent assurance on the adequacy of the governance and control environment, effectiveness of the Risk Management Framework and to oversee the annual financial reporting process.

Benefits of the Audit Committee

The benefits to be gained from operating an effective Audit Committee are that it:

• Raises greater awareness of the need for internal control and the implementation of audit recommendations;

• Increases public confidence in the objectivity and fairness of financial and other reporting;

• Reinforces the importance and independence of internal and external audit and any other similar review process eg providing a view on the annual governance statement;

• Provides additional assurance through a process of independent and objective review.

Governance Role

The Audit Committee aims to improve corporate focus on governance by:

- Providing assurance on the adequacy of the Risk Management Framework and the associated control environment;

- Scrutinising the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment;

- Overseeing the financial reporting process;

- Approving the Council's Statement of Accounts;

- Commenting on the scope and nature of external audit;

- Overseeing proposed and actual changes to the Council's policies and procedures pertaining to governance.

2. BACKGROUND

2.1 An Audit Committee is central to the provision of effective corporate governance, which partly depends on a systematic strategy, clear framework and processes for managing risk. Good governance also maintains and increases public confidence in the objectivity and fairness of financial and other reporting as well as helping to deliver improved services. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

2.2 It is recognised that high performing councils develop effective financial and non-financial control mechanisms. The development of expertise made available by the establishment of an Audit Committee, meeting on a regular cycle, and with Terms of Reference focussed on the key audit control and risk management areas critical to the Council's performance is a key part of these mechanisms.

2.3 The Committee's outline work programme is attached as **Appendix 1**. The work programme supports the Council's aim to improve its efficiency and effectiveness and has been developed to address the Terms of Reference for the Committee approved by the City Council (**Appendix 2**). In accordance with CIPFA guidance, the Committee is politically balanced and will not have Executive membership.

Membership will continue to be reviewed in accordance with guidance from the Department of Communities & Local Government (DCLG).

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

None

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Advice note from CIPFA Technical Audit Committees – Practical Guidance for Local Authorities (CIPFA)

Appendix 1

Updated Audit Committee Programme of work 2014 / 2015

REPORT TITLE	DATE ▷ / LEAD ▽	28.11.14	27.02.15	24.04.15
Annual Governance Statement Mid Year Update	GW/SS		▨	
Audit Committee Role & Annual Work Programme	GW/SS	▨		
Audit Committee Training Activity	GW/SS	▨		▨
Counter Fraud Strategy	GW/SS	▨		
EMSS Update	GW/SS	▨		
Internal Audit Performance Report	GW/SS	▨		
Internal Audit Reports Selected for Examination	GW/SS		▨	
KPMG – Annual Audit Letter	KPMG	▨		
KPMG – Certification of Claims & Returns Annual Report	KPMG		▨	
KPMG – Regular update/statement of audit progress	KPMG		▨	
KPMG – External Audit Plan	KPMG		▨	
Partnership Governance Framework	LC	▨		
Risk Management Quarterly Report	GW/R		▨	▨
Risk Management Training	GW/R		▨	▨
Treasury Management Strategy & Key Issues Update	GW/JA	▨		
Local Government Ombudsman Annual Report	MG/LN	▨		
Performance Management Framework	AP/CC	▨		

KEY : PEOPLE

Cllr P	Councillor Piper
SS	Shail Shah
JA	Jeff Abbott
KPMG	External Auditor
R	Risk Manager
GW	Geoff Walker
LC	Laura Catchpole
LN	Lynne North
MG	Mark Gannon
CC	Chris Common
AP	Angela Probert

KEY : PURPOSE

	As required
	For approval
	Reviewing performance

Audit Committee Terms of Reference

TITLE	AUDIT COMMITTEE
POWERS / REMIT	

(a) Main Purposes:

1. Provide assurance of the adequacy of the risk management framework and the associated control environment;
2. Scrutinise the council's financial and non-financial performance to the extent that it affects the council's exposure to risk and weakens the control environment;
3. Oversee the financial reporting process;
4. Approve the council's statement of accounts;
5. Comment on the scope and nature of external audit;
6. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.

(b) Main Functions:

1. Reviewing the mechanisms for the assessment and management of risk;
2. Approving the council's statement of accounts;
3. Receiving the council's reports on the statement on the annual governance statement and recommending their adoption;
4. Approving internal audit's strategy, planning and monitoring performance;
5. Receiving the annual report and other reports on the work of internal audit;
6. Considering the external auditor's annual letter, relevant reports and the report to those charged with governance and the council's responses to them;
7. Considering arrangements for and the merits of operating quality assurance and performance management processes;
8. Considering the exercise of officers' statutory responsibilities and of functions delegated to officers;
9. To recommend external audit arrangements for the council;
10. To receive and consider the results of reports from external inspectors, ombudsman and similar bodies and from statutory officers;
11. Overseeing the partnership governance framework, including annual health checks and the register of significant partnerships.

ACCOUNTABLE TO: Council	
MEETINGS: Normally six per annum plus specials where required	
MEMBERSHIP: 9 non-executive members (politically balanced) plus 1 independent member.	
ESTABLISHED SUB COMMITTEES: None.	