Public Document Pack

NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 13 May 2016

Time: 10.30 am

Place: Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG

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

Corporate Director for Resilience

Governance Officer: Catherine Ziane-Pryor   **Direct Dial:** 0115 8764298

8   UPDATE ON THE REVIEW AND IMPROVEMENT OF THE DELIVERY OF STRATEGIC RISK MANAGEMENT
Verbal update by Jane O'Leary, Insurance and Risk Manager.

9   INTERNAL AUDIT PLAN 2016-17   31 - 38
Report of the Head of Internal Audit.

10   FUTURE MEETING DATES
To agree that the Committee meet at 10.30am, in Loxley House, on the following dates:

2016	2017
1 July	24 February
16 September	28 April
25 November	

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

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

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 Loxley House, Nottingham on 26 February 2016 from 10.32 - 12.11

Membership

Present	Absent
Councillor Sarah Piper (Chair)	Councillor Toby Neal
Councillor Steve Young (Vice Chair)	Councillor Malcolm Wood
Councillor Michael Edwards	
Councillor John Hartshorne	
Councillor Anne Peach	
Councillor Andrew Rule (Items 42-48a)	

Colleagues, partners and others in attendance:

Nigel Cook	-	Head of One Nottingham
Tony Crawley	-	KPMG External Auditor
Glyn Daykin	-	Treasury Management Finance Analyst
Ken Lyon	-	Acting Head of Transformation
Jane O'Leary	-	Insurance and Risk Manager
Shail Shah	-	Head of Audit and Risk
Thomas Straw	-	Finance Manager - Capital
Geoff Walker	-	Director of Strategic Finance
Richard Walton	-	KPMG External Auditor
Phil Wye	-	Constitutional Services Officer

42 APOLOGIES FOR ABSENCE

Councillor Toby Neal – Council business
Councillor Malcolm Wood – Council business

43 DECLARATIONS OF INTERESTS

None.

44 MINUTES

The Committee confirmed the minutes of the meeting held on 27 November 2015 as a correct record and they were signed by the Chair.

45 RESILIENCE OF CITY COUNCIL IT SYSTEMS

Simon Salmon, Head of IT, gave a verbal update and assurance of the resilience of the council's IT systems following a cyber-attack at Lincolnshire County Council, highlighting the following:

(a)   in 2013 nearly all of the council's IT systems needed replacing, and 10% of data could have been potentially lost in a major outage. There were also a high number of

incidents affecting the council's integrity;

(b)   over the past 2 years most devices have been replaced, including mobile devices and laptops. IT systems are now 42% faster;

(c)   an information security management system has been introduced and the council gained accreditations for first time ever. Penetration testers failed to gain access to the network, whereas in 2014 this took only 10 minutes;

(d)   a tightened service level agreement has been introduced. User deletion now takes a maximum of 8 hours, and compliance has increased by 82%. IT colleagues have been trained regionally and nationally and are now unusually advanced with 25 accredited trainers. User training in IT safety has only had 35% take-up but there is reluctance to enforce colleagues to do this;

(e)   the virus in Lincolnshire failed to be recognised by 3 of 5 virus checkers, so Nottingham's antivirus checker has been replaced to be better at recognising ransomware. The IT Team is also proactively working to block spam emails, and a new email system will be introduced by December which run all emails through virus scanners;

(f)   the Disaster Recovery site will be relocated away from Woodthorpe Grange as this has been deemed unsuitable.

RESOLVED to note the verbal update

46   PERFORMANCE MANAGEMENT FRAMEWORK

Ken Lyon, Portfolio and Performance Manager, gave a presentation highlighting the following:

(a)   the Council Plan has 10 key themes led by an Executive councillor. Each theme has 10-15 deliverables. There will be quarterly reporting to Corporate Leadership Team, Portfolio Holders and Executive Panel, and annual reporting to Executive Board and Audit Committee;

(b)   in addition, there are four new equality objectives that cover all themes:
   • make sure that our workforce will reflect the citizens we serve;
   • create economic growth for the benefit of all communities;
   • provide inclusive and accessible services for our citizens;
   • lead the City in tackling discrimination and promoting equality;

(c)   performance monitoring aligns with the council's Performance Management Framework, as well as transformation programmes such as the Good to Great programme.

RESOLVED to approve the approach to performance management

47   PARTNERSHIP GOVERNANCE HEALTH CHECKS AND UPDATE TO REGISTER OF SIGNIFICANT PARTNERS

Nigel Cooke, Head of One Nottingham, introduced the report giving an overview of the findings of the annual partnership governance checks and recommending the inclusion of three partnerships and the removal of six partnerships from the Register of Significant Partnerships. Nigel highlighted the following:

(a)   the Register of Significant Partnerships has been in place for a number of years, and is a useful tool to monitoring important partnerships of the council;

(b)   each partnership on the Register is asked to complete an annual self-assessment of the health of the partnership's governance. The majority of partnerships scored good or excellent. Health checks for three of the partnerships, Children's Partnership Board, Green Nottingham Partnership and N2 Skills and Employment Board, will be considered and verified and brought back to a future meeting;

(c)   some of the partnerships are to be removed from the register as they will be governed by a contract going forward. Contracts will be rigorously managed by the Performance Management service.

RESOLVED to

(1)   note the key findings from the Partnership Governance Health Checks and Register of Significant Partnerships;

(2)   approve the inclusion of the Education Improvement Board, the Safeguarding Children Board and the Safeguarding Adults Board in the Register of Significant Partnerships;

(3)   approve the removal of the following partnerships from the Register of Significant Partnerships:

- **Economic Prosperity Committee;**
- **Experience Nottinghamshire;**
- **Greater Nottingham Growth Point Partnership;**
- **Housing Strategic Partnership;**
- **Nottingham Regeneration Ltd;**
- **Strategic Cultural Partnership.**

48   KPMG

a   EXTERNAL AUDIT PLAN 2015/16 (Agenda Item 8a)

Tony Crawley, KPMG, presented the External Audit Plan for Nottingham City Council 2015/16, highlighting the following:

(a)   although there are new regulators, the Plan is broadly similar to the previous year;

(b)   the significant audit risks in the report are higher risks to KPMG than Nottingham City Council;

(c)   the Council has a responsibility to advertise audits for a period of 30 days, with the final objection date being the end of this period;

(d)   the planned audit fee for Nottingham City Council in 2015/16 is a reduction of 25%

RESOLVED to note the External Audit Plan 2015/16

b   EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE
        (Agenda Item 8b)

Richard Walton, KPMG, introduced the report, providing the Committee with an overview on progress in delivering as external auditors, and highlighting the main technical issues which are currently having an impact in local government.

KPMG recently met with the council finance team following a recent restructure, to give updates and look at future audit plans.

The following answers were given in response to questions from the Committee:

(a)   this report is produced for Audit Committee members as a summary of helpful information and updates to add value to the Committee's work;

(b)   the council's pension scheme will be pooled with other pension schemes in the Midlands. Auditors of the different councils will write formally to the pension fund auditor.

RESOLVED to note the report and technical update

49   REVIEW OF ACCOUNTING POLICIES

Tom Straw, Finance Manager Capital, introduced the report, highlighting the following:

(a)   there have been no significant changes to the accounting policies from 2014/15 other than a new accounting policy called 'Fair Value Measurement' due to the introduction of International Finance Reporting Standard (IFRS) 13;

(b)   with the introduction of IFRS13, Nottingham has looked at how other councils have adopted the policy. It has been made compact and understandable but still covering the major points;

(c)   IFRS13 changes the way in which fixed assets are measured and valued, in that all possible usages of the asset must now be taken into account rather than just the present usage.

RESOLVED to

(1)   agree the Statement of Accounting Policies for inclusion in the 2015/16 annual accounts;

(2)   agree the proposals where International Financial Reporting Standards (IFRS) allow a degree of choice.

50   STATEMENT OF ACCOUNTS AND CHANGES TO PUBLIC INSPECTION

Tom Straw, Finance Manager Capital, introduced the report. The period for public inspection of Nottingham City Council's statement of accounts has increased from 20 to 30 days, and must include the first 10 working days in June.

RESOLVED to note the report

51   TREASURY MANAGEMENT 2016/17 STRATEGY

Geoff Walker, Director of Strategic Finance, introduced the report, asking for the Committee's consideration and comments of the Treasury Management Strategy before it is put to Full Council in July for approval. Geoff highlighted the following:

(a)   the proposed Treasury Management Strategy for 2016/17is to be considered at the meeting of full Council on 7 March 2016;

(b)   the main elements of the strategy have not changed since last year, with the economic context being broadly the same;

(c)   focus of the strategy is likely to move to the borrowing strategy, and opportunities in the borrowing sector.

The following answers were given in response to questions from the Committee:

(d)   the strategy takes a prudent approach to borrowing, and business cases for capital projects must be robust before they are financed, to avoid risk;

(e)   there is currently robust domestic growth in the financial sector, though this may not be sustainable. The majority of the council's current debt is on fixed contracts to minimise risk, and prudent decisions will always be taken when investigating future loans;

(f)   councils are currently encouraged by the government to take financial risks in order to grow.

RESOLVED to note the proposed Treasury Management Strategy for 2016/17, in particular:

(i)   the strategy for debt repayment (Minimum Revenue Provision) in 2016/17;
(ii)   the investment strategy for 2016/17;
(iii)   the prudential indicators and limits for 2015/16 to 2018/19;
(iv)   the current Treasury Management Policy Statement.

52   ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2014/15 AND PROCESS FOR PRODUCING 2015/16 STATEMENT

Shail Shah, Head of Audit and Risk, introduced the report providing a mid-year progress update on issues reported in the 2014/15 Annual Governance Statement (AGS), as well as an overview of the process for compiling the 2015/16 AGS.

The 2015/16 AGS process will be discussed with corporate directors soon, before production of a draft in July and a final report in September.

Shail confirmed that City Council controlled companies will be considered as part of the 2015/16 AGS process.

RESOLVED to

(1)   note the progress made to date in addressing the issues reported in the 2014/15 AGS;

(2)   note the process and timetable for compiling and completing the 2015/16 AGS.

53   UPDATE ON THE REVIEW AND IMPROVEMENT OF THE DELIVERY OF STRATEGIC RISK MANAGEMENT

Jane O'Leary, Insurance and Risk Manager, introduced the report providing a progress report on the Review and Improvement of the delivery of Strategic Risk Management project.

The ambition is for the Strategy to be complete over the next 2 months, but may be finalised towards the end of summer. An updated Strategy will be brought to the Audit Committee meeting in April.

RESOLVED to note the update report

54   INTERNAL AUDIT QUARTERLY REPORT 2015/16 (THIRD QUARTER)

Shail Shah, Head of Internal Audit, introduced the report outlining the work of the Internal Audit Service for the third quarter of 2015/16. Performance against all Local Performance Indicator targets is on track for year-end completion.
Some audits have opinions of limited assurance but this is expected in certain areas. Updates and progress on these areas will be monitored via future reports.

RESOLVED to note the performance of Internal Audit during the period

55   AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME

Shail Shah, Head of Internal Audit, presented the report which provides the Committee Terms of Reference and the Committee's Annual Work Programme for the 2016/17 municipal year.

RESOLVED to

(1)   note the functions of the Audit Committee and the benefits arising from its existence;

(2)   endorse the outline work programme and the terms of reference.

AUDIT COMMITTEE - 13 MAY 2016

Title of paper:	**Partnership Governance Verification of Health Checks**	
Director(s)/ Corporate Director(s):	**Candida Brudenell, Assistant Chief Executive** **Nigel Cooke, Director of One Nottingham** **Colin Monckton, Director of Commissioning, Policy and Insight**	**Wards affected: All**
Report author(s) and contact details:	**Elaine Fox, Corporate Policy Team** 0115 8764540 / elaine.fox@nottinghamcity.gov.uk	
Other colleagues who have provided input:	**Rob Smith, Internal Audit**	

Recommendation(s):	
1	**To note the key findings from the verification of the Health Checks of three partnerships on the Register of Significant Partnerships.**

1   REASONS FOR RECOMMENDATIONS

1.1   It is recommended that Audit Committee note Sections 2.4 and 2.5 with key findings from the annual verification of the Health Checks of three partnerships from the Register of Significant Partnerships.

2   BACKGROUND

2.1   At Audit Committee in February 2016 a report was presented detailing the Health Checks undertaken in autumn 2015. Along with this, the revised Register of Significant Partnerships was shared and the recommended additions and removals were accepted.

2.2   Audit Committee agreed that the verification of three partnerships, which takes place on an annual basis, could be presented to the next meeting of Audit Committee which is why this report has been written.

2.3   Partnerships are selected for verification on a rolling programme; Appendix One shows the updated schedule to 2020. Partnerships will be subject to verification at least every four years. The partnerships selected for verification this time are:
- Children's Partnership Board
- Green Nottingham Partnership
- N2 Skills and Employment Board

2.4   **Health Check Scores**
Appendix Two shows the Health Check scores for all Significant Partnerships including those being verified. Below are the points noted from the Health Check self-evaluations of the three partnerships where they have scored anything 3 or 4 ('some key areas for improvement' or 'many key weaknesses'), or 'not applicable'.

2.4 i **Children's Partnership Board** (CPB) recorded 'not applicable' for the following:

- Performance Management – The four main themes of the Children and Young People's Plan (CYPP), which the CPB works to support, are reported on quarterly on a rolling basis. The partnership action plan of the CYPP is reported on twice each year (June and December) and an annual activity report is presented to the Local Strategic Partnership, One Nottingham. The reason for the return of 'NA' against this measure is because delivery contracts are monitored by individual organisations' commissioning teams, not by the partnership itself. A recommendation regarding this is included in section 2.5 i.
- Finance – The Children's Partnership Board holds no budget, therefore the questions around financial management were deemed not applicable by the partnership.

2.4 ii **Green Nottingham Partnership** recorded a rating of 4 for the following:

- Finance – This is not in relation to any risks which the partnership has regarding its financial conduct, this was due to the partnership not having a budget, which it was stated 'continues to hold back the partnership' as it 'relies on the good will of partners where any finance is required'. In addition, the officer who has taken minutes for the partnership 'has a different role and will need to be replaced in order to maintain good record keeping'. The financial risk is of the partnership ceasing to exist or being less effective than it could be if a budget was available, rather than risking any funding awarded to the partnership by Nottingham City Council. The question on the Health Check asks if the partnership can monitor its finances appropriately therefore consideration should be given by the partnership as to whether they have policies in place should financing be received.
- Partnership Risk Management – This directly relates to the financing of the partnership, highlighted above, putting the partnership's existence and effectiveness at risk. We considered that the question had been misunderstood, as we were asking for evidence that risk is monitored, not a rating of the risk itself. As a risk has been identified it implies the partnership is able to identify risk and therefore a score higher than 4 may have been more appropriate.

2.4 iii **N2 Skills and Employment Board** scored themselves 2 for each category. The scores given were deemed satisfactory and no recommendations were made relating to reconsideration of the scores themselves.

2.5 **Evidence review and recommendations**
All partnerships provided documentary evidence and each had a Terms of Reference. Not all partnerships' objectives were SMART, although objectives were evident for each.

2.5 i **Children's Partnership Board** (CPB)

- CPB identified an issue with lack of continuity of attendees and attendance as a whole due to changes within individual organisations. It is recommended that attendance requirements and expectations could be communicated more clearly. There was no evidence of a requirement for each board member to have a named representative or substitute who can attend in their place; if named substitutes are identified this may assist consistency in attendance and continuity, ensuring organisations do not send multiple representatives to different meetings.
- The Health Check stated that compliments and complaints are handled by the two Chairs; it may be useful to note this in the Terms of Reference or other governance

documentation. It is recommended a procedure is put in place by which any compliments and complaints can be formally recorded.

- There was no evidence of risk analysis or dispute resolution policies; if none exist it is recommended the partnership adopts Nottingham City Council documents and policies for these areas where they exist.

- The Health Check states that delivery contracts are managed by individual organisations' commissioning teams; it is not confirmed that any contracts which help meet the partnership's objectives comply with Nottingham City Council's own contract protocols and requirements. It is recommended this is explored if it is not being done already and recorded for clarity.

- The Health Check included various comments from one of the partners who identified themselves as 'a relatively new member'; the comments were not always helpful and did not add value to the Health Check. It is recommended that comments such as these are included only where they add value, as the comments given on occasion served only to qualify what had already been said and agreed by the Board's Chairs.

2.5 ii **Green Nottingham Partnership** (also known as Green Theme Partnership)

- Several documents for the Green Nottingham Partnership were not provided; this was in part due to a change of administrative support. It is recommended that the partnership has a central location for all relevant documents going forward to ensure any decisions or actions can be referred back to.

- The Terms of Reference for the partnership were written in 2012 and no review date is included. It is recommended that the Terms of Reference should be redrafted, which would be expected if the partnership is reconfigured, and that a review date is included. The Terms of Reference could also include conflict and dispute resolution guidance if these are not already in place.

- The web page for the partnership, linked to One Nottingham's website, was last updated in August 2014; it is recommended the Green Partnership should keep the information up-to-date to ensure stakeholders and members of the public are kept informed of the partnership's work, or the website should be taken down.

- A prioritised Action Plan is being developed, although this is not yet complete; it is recommended that this is quickly completed to determine priority actions.

- The partnership identified its future is at risk due to not receiving any funding and its reliance on the good will of partners. To ensure the partnership's future it may wish to consider sponsorship opportunities or to explore funding possibilities elsewhere.

- The partnership scored itself 1, 'excellent' for membership and structure; this score was not agreed with due to the out of date terms of reference and lack of other up-to-date governance documents. Recommendations above indicate ways to ensure a score of 1 can be met in future.

- The new Head of Energy and Sustainability, with support from the Chair, plans to reconfigure this partnership. Due to the partnership being reconfigured it is recommended that the Green Nottingham Partnership's Health Check should be verified again in the 2016 round to check progress has begun; the schedule in Appendix One has been amended from the version submitted to the last Audit Committee to reflect this recommendation. It is also recommended that the partnership is subject to further verification in two years' time to track progress.

2.5 iii **N2 Skills and Employment Board**

- The Terms of Reference for the Board were very comprehensive but it is recommended that these should include the date on which they were agreed and a review date on which they will next be considered.
- The partnership's website is informative and easy to navigate, but there was no documentation about how compliments and complaints are dealt with or how disputes might be resolved. It is recommended that if no policies exist for complaints or disputes those of Nottingham City Council should be adopted where available.
- A conflict of interest policy is being developed which will strengthen governance of the partnership. It is recommended that this policy is completed and formalised quickly, especially due to the partnership's large representation from private companies whose priorities may differ from those of Nottingham City Council.
- The Health Check referenced that strategy monitoring will assess risk and take necessary action, but no evidence was provided as to how this would happen and any process through which risks would be assessed or communicated. It is recommended that plans are formalised for assessing risk and how this will be documented and reported to partners.

2.6 When Health Check templates are circulated in autumn 2016 for completion, they will be accompanied by a recommended 'checklist' of documents which partnerships should have and might wish to consider having in place to ensure good governance. The list of documents will be taken from the Partnership Governance Framework, the Health Check questions and previous good examples of evidence provided from partnerships.

2.7 **Looking Ahead**
The recommendations have been communicated to the partnerships; if agreed by Audit Committee the Green Theme Partnership will be told it will be verified again at the end of 2016. In the report to Audit Committee in autumn 2016 we will confirm that any recommendations have been implemented and where any additional evidence has been supplied to confirm requirements are already being met.

2.8 With the potential changes ongoing public sector reform would bring, combined with the funding challenges facing local authorities and other agencies it is likely the partnership landscape will change significantly over the next few years. As this year, any new and emerging partnerships will be considered for inclusion on the register of significant partnerships and the validity of partnerships currently on the register will be evaluated. The verification timetable in Appendix One will be amended should any new partnerships be added to the Register of Significant Partnerships to ensure their Health Check and relevant documents are thoroughly checked within two or three years of them being added.

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 One
Schedule for Verifying Health Checks to 2020

No.	Name of Partnership	2013	2014	2015 (May 2016 Audit C'ttee)	2016	2017	2018	2019	2020
1	One Nottingham	Completed				Scheduled			Scheduled
2	Children's Partnership Board			Scheduled				Scheduled	
3	Derby, Derbyshire, Nottingham, Nottinghamshire Local Enterprise Partnership (D2N2 LEP)				Scheduled			Scheduled	
4	Greater Nottingham Transport Partnership		Completed			Scheduled			
5	Green Nottingham Partnership			Scheduled	Re-verification		Scheduled		
6	Health and Wellbeing Board		Completed				Scheduled		
7	N2 Skills and Employment Board			Scheduled				Scheduled	
8	Nottingham Crime and Drugs Partnership		Completed				Scheduled		
9	Education Improvement Board				Scheduled				Scheduled
10	Safeguarding Children Board				Scheduled				Scheduled
11	Safeguarding Adults Board					Scheduled			

Appendix Two
Health check scores autumn 2015

	Partnerships	Aims and objectives	Membership and structure	Decision making and accountability	Performance management	Evaluation and review	Equalities	Finance	Partnership Risk Management
1.	One Nottingham	1	1	2	1	2	1	2	2
2.	Children's Partnership Board	1-2	1-2	1-2	N/A	1	1	N/A	1
3.	D2N2 Local Enterprise Partnership	1	1	1	2	2	2	1	3
4.	Greater Nottingham Transport Partnership	1	2	1	1	2	1	2	2
5.	Green Nottingham Partnership	2	1	2	2	2	1	4	4
6.	Health & Wellbeing Board	2	2	2	2	2	2	2	2
7.	N2 Skills and Employment Board	2	2	2	2	2	2	2	2
8.	Crime and Drugs Partnership	2	1	2	1	2	1	1	1
9.	Education Improvement Board	2	2	2	3	3	2	2	2
10.	Safeguarding Children Board	2	2	2	2	2	2	2	3
11.	Safeguarding Adults Board	2	2	2	2	2	2	2	3

KPMG

cutting through complexity

Agenda Item 6

External audit progress report and technical update

Nottingham City Council

May 2016

External audit progress report and technical update – May 2016

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

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

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

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

🔴 **High impact**

🟡 **Medium impact**

🟢 **Low impact**

⚪ **For info**

Page 16

Progress report

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

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

Area of responsibility	Commentary
Financial statements	Since the last Audit Committee in February we have completed the majority of our interim audit work to confirm controls are in place to facilitate the production of the annual accounts. As part of this work we have: • reviewed the design and implementation of significant financial systems and assessment of the financial control environment, including addressing any gaps in assurance. For 2015/16, across our client base, we have increased the work performed at interim to obtain a more granular understanding of systems feeding into the key financial statements. This is in response to the increasing localisation of risk and the increasing financial pressure on the sector. Placing more reliance on controls where possible will produce efficiencies for our final accounts visit. For 2015/16 our interim visit included an increased focus on council tax, business rates, and housing benefits systems due to the inherent complexities of these systems. Where we identify significant risks or do not gain the planned level of assurance from our work, we report to management and those charged with governance. We will report the findings from our work to the Audit Committee in July, but can confirm that there is nothing that causes us significant concern at this stage; • reviewed and considered internal audit work completed to date for 2015-16. We have also met with the Head of Internal Audit and Internal Audit Manager, and will continue to engage in periodic liaison meetings. This will help reduce the risk of duplication and we will continue to use internal audit work to inform our risk assessment and work plan throughout our audit; • reviewed the Authority's Minimum Revenue Provision proposal, this will be followed up as part of our year-end accounts visit; • reviewed the appropriateness of your arrangements for the prevention and detection of fraud and corruption in accordance with ISA240 (the responsibility to consider fraud), including discussing this with internal audit. • noted an improvement in the completeness and quality of working papers presented to us by the finance team to support out interim work. This helped expedite our work and reduced the number of queries we raised during our visit. At this stage we are satisfied that the Authority has robust plans in place for the preparation of its financial statements leading to the submission of the draft accounts by 30 June 2016. *(continued overleaf)*

Page 18

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

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

Page 19

Area of responsibility	Commentary
Financial statements (cont.)	• utilised our IT specialists to perform work over the General IT Control Environment in which the Authority's General Ledger (Oracle) is managed. This work has included working closely with staff at East Midlands Shared Service. Undertaking this work will add additional efficiencies to our year-end audit work, and will enable us to review balances using data analytics. • shared a detailed prepared by client (PBC) list with finance staff and this sets out the requirements for a smooth and efficient year-end audit. Our PBC supports the Authority in producing the good quality working papers we need at the start of the audit. • set-up the Authority on our K-Central website. K-Central facilitates the sharing of working papers, query logs and reports etc between the audit and Authority's finance teams, to help improve the flow, access and transparency of information; and • noted the Authority's dates for public inspection of the draft annual accounts.
Value for Money	Below we have provided an updated upon the work undertaken against our three VFM risks included within our External Audit Plan presented to the Committee in February; • **Delivery of Saving Plans** – On 11 April we met with the interim director of HR and Transformation to gain further insight into the work being undertaken by the Authority in delivering its current savings plan and developing medium term plans. • **Better Care Fund -** Commenced our working reviewing the governance arrangements underpinning Better Care Fund and the reported progress made to date. This has included reviewing the papers and minutes from the Health and Wellbeing Commissioning Sub-committee and interviewing key staff • **New possible group entity – Adducere –** we have utilised one of our specialist to review and assess the potential risks surrounding the proposed funding structure for the Bio-science Facility in Nottingham. His observations have been fed back to officers for consideration and there are no issues we wish to flag to the Committee. We will provide a more comprehensive update on our assessment to the Committee in July. *(continued overleaf)*

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

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

Area of responsibility	Commentary
Certification of claims and returns	We have undertaken certification work in regards to: • Local Transport Plan Major Projects Return (Form S31AUD). The fieldwork for this work has been completed and undergoing final review. At this stage we have not identified any issues which need to be reported to the Committee. We anticipate issuing our opinion by the required deadline at the end of this month. The work was completed in line with the Department for Transport's certification instructions.
Other work	Since the last Audit Committee in February we have: • discussed with the Authority undertaking an additional piece of work assessing the level of risk exposure associated with the Council's investment with Robin Hood energy; • issued to the Authority the results from our Local Government Budget Holder survey. We have provided more details on page 7; • held our Local Government Early Close Workshop at our Leicester Office on 7 March 2016, this was attended by members of the finance team who have responsibility for compiling the annual accounts. The Seminar focussed on steps the council needs to being considering ahead of the earlier accounts submission deadlines which will come into effect in 2017/18.

Page 20

cutting through complexity

KPMG resources

Area	Comments
KPMG Local Government Budget Survey Page 22	KPMG has recently published the results of its Local Government Budget Survey. The survey collated data from 97 KPMG local authority clients on topics including: ■ The content of budget monitoring reports; ■ Savings plans; ■ Invest-to-save projects ■ The type of savings being made; ■ Assumptions underlying the medium term financial plan; and ■ Reserve movements. The Survey also poses questions for management and members to consider when reviewing their budget setting and budget monitoring processes. For more information, and a copy of the report, please contact Tom Tandy, External Audit Manager at thomas.tandy@kpmg.co.uk.

Area	Comments
KPMG publication titled: Value of Audit – Perspectives for Government Page 23	**What does this report address?** This report builds on the *Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed. Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future. **What are the key issues?** ■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ■ The importance of trust and independence of government across different markets. ■ How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making. ■ The importance of technology integration and the issues that need to be addressed for successful implementation ■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

Technical update

Area	Level of Impact	Comments	KPMG perspective
Capital receipts flexibility Page 25	🟢 **Low**	The 2015 Spending Review included an announcement that local authorities would be able to use capital receipts on the revenue costs of service reform projects. The Department for Communities and Local Government (DCLG) has now issued guidance on the capital receipts flexibility, including a draft direction setting out the types of project that would qualify and expected governance and transparency framework. In summary: ■ the flexibility is available from 1 April 2016 to 31 March 2019; ■ only capital receipts generated during that period can be used for the flexibility; ■ the Secretary of State's direction will have the effect of allowing authorities to treat revenue expenditure on service reform as capital during the three year period; ■ authorities will not be allowed to borrow to fund revenue expenditure on service reform; and ■ authorities are required to have regard to a statutory code which contains certain transparency requirements when taking advantage of the flexibility. We understand that DCLG's aim is that the final signed direction will be issued with the final settlement in February 2016. A copy of the draft guidance can be found at www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility_-_draft_statutory_guidance_and_direction.pdf	*The Committee may wish to seek assurances how their Authority is planning to use the new flexibility.*

Area	Level of Impact	Comments	KPMG perspective
Better Care Fund policy framework 2016/17	🟢 **Low**	The Department of Health, in conjunction with the Department for Communities and Local Government, has recently published *2016-17 Better Care Fund planning guidance*. The guidance introduces a number of changes, requiring local clinical commissioning groups (CCGs), councils and providers to establish risk sharing arrangements to fund unplanned emergency admissions. Local areas will also have to agree to 'stretching' local targets for cutting delayed transfers of care supported by an action plan. The guidance can be found here: www.gov.uk/government/publications/better-care-fund-how-it-will-work-in-2016-to-2017	*The Committee may wish to seek assurances how their Authority is developing these arrangements.*
PSAA update – VFM profiles March 2016 release	⚪ **For Information**	Public Sector Audit Appointments Ltd (PSAA) updated its Value for Money Profiles Tool (VFM profiles) on 3 February 2016. The VFM profiles have been updated with the 2014-15 data sourced from the Department for Communities and Local Government – General Fund Revenue Outturn Budget (RO). The values are adjusted with gross domestic product (GDP) deflators from HM Treasury's publication in November 2015. The profiles can be accessed through the PSAA website at www.psaa.co.uk/	
Cities and Local Government Devolution Act 2016	⚪ **For Information**	Authorities will wish to note that the Cities and Local Government Devolution Act 2016 received Royal Assent on 28 January 2016. The Act provides the enabling legislation to: ■ allow for the election of mayors for a combined authority area; ■ allow for the devolution of functions, including transport, health, skills, planning and job support; and ■ provide a power to establish sub-national transport bodies which will advise the Government on strategic schemes and investment priorities in their own area. Most of the changes under the Act, including the implementation of 'devolution' deals, will be implemented by Orders to be made under the Act.	

Page 26

KPMG

cutting through complexity

Appendix

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2016	Complete
Interim			
Interim feedback	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Authority's arrangements for securing value for money in the use of its resources.	July 2016	TBC
Substantive procedures			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements.	September 2016	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	TBC

Page 28

This page is intentionally left blank

AUDIT COMMITTEE – 13 May 2016

Title of paper:	**INTERNAL AUDIT ANNUAL WORK PLAN 2016/2017**
Director(s)/ Corporate Director(s):	**DIRECTOR OF STRATEGIC FINANCE**	**Wards affected: All**
Report author(s) and contact details:	Shail Shah Head of Internal Audit and Risk ☎ 0115-8764245 ✉ shail.shah@nottinghamcity.gov.uk
Other colleagues who have provided input:	
Recommendation(s):	
1	To endorse the Internal Audit Plan for 2016/2017

1. REASONS FOR RECOMMENDATIONS

1.1. The Accounts and Audit Regulations 2015 require every local authority to maintain an adequate internal audit function which should operate within codes of professional best practice.

1.2. The Committee's terms of reference include the function of overseeing the work of IA. Approval of the IA Plans gives the Committee the opportunity to understand the focus of audit resources and helps inform the Committee's understanding of the Council's assurance, control and governance arrangements.

1.3. This report informs the Committee of the proposed work planned by the Internal Audit Service (IA) and is designed to support the City Council's Governance and Control Framework.

2. BACKGROUND

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

2.2 **Appendix 1 of this report** is a summary of the IA Plan for 2016/2017. Detailed plans are available for members of the Audit Committee or by request to the Head of Internal Audit and Risk (HoIA). The plan is centred on the need to align audit activity to Council objectives and to meet the requirements of effective Corporate Governance, including the Annual Governance Statement (AGS).

2.3   The HoIA meets with colleagues from Departmental Leadership Teams to consider their plans and the implications of these. Where possible, departmental priorities are incorporated to enable Corporate Directors to provide assurance for the AGS.

2.4   The work of the service will be conducted in accordance with the standards set out in the Public Sector Internal Audit Standards 2012 (PSIAS). These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework and promote improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

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

None

4.   PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- The Accounts and Audit Regulations 2015
- Public Sector Internal Audit Standards 2012

Internal Audit Plan 2016/2017

---

1. **Introduction**

This document contains the operational Internal Audit Plan for 2016/2017.

2. **Background**

2.1. The Accounts and Audit Regulations 2015 require every local authority to maintain an adequate Internal Audit (IA) service which should operate within codes of professional best practice.

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

2.3. The PSIAS definition of IA is as follows:

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

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

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

3. **The Role of IA**

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

3.2. A key factor in the effectiveness of IA is that it is seen to be independent. To ensure this independence, IA operates within a framework that allows:
   - Unrestricted access to senior management
   - Reporting in its own name
   - Segregation from line operations.

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

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

4. **The Audit Plan and Planning Process.**

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

4.2. The work is targeted in order to address the key risks to the Council's strategic objectives and other priorities of the Council. The proposed Nottingham City Council IA Plan for 2016/2017 is summarised in the table below

Summary of 2016/2017 Internal Audit Plan

Audit Title	Planned Days
Strategic Risk Register	100
Resources	96
Chief Executive/Transformation	70
Children & Families	125
Commercial & Operations	80
Development	130
Corporate Audits	380
Fraud / Counter Fraud	600
Corporate Fraud Strategy	73
Companies / Other Bodies	314
Consultancy, Advice and Support	160
Developments / Other Work	90
Total Days	**2218**

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

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

- S151 Local Government Act 1972 – to ensure the proper administration of financial affairs.
- S114 Local Government Act 1988 – to ensure the Council's expenditure is lawful.
- Accounts and Audit Regulations 2015 – to ensure that an adequate and effective IA of the Council's accounting records and of its system of internal control is undertaken in accordance with the proper practices in relation to internal control.

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

4.6. Accordingly the Audit Plan has been devised following a risk based approach using the following sources:
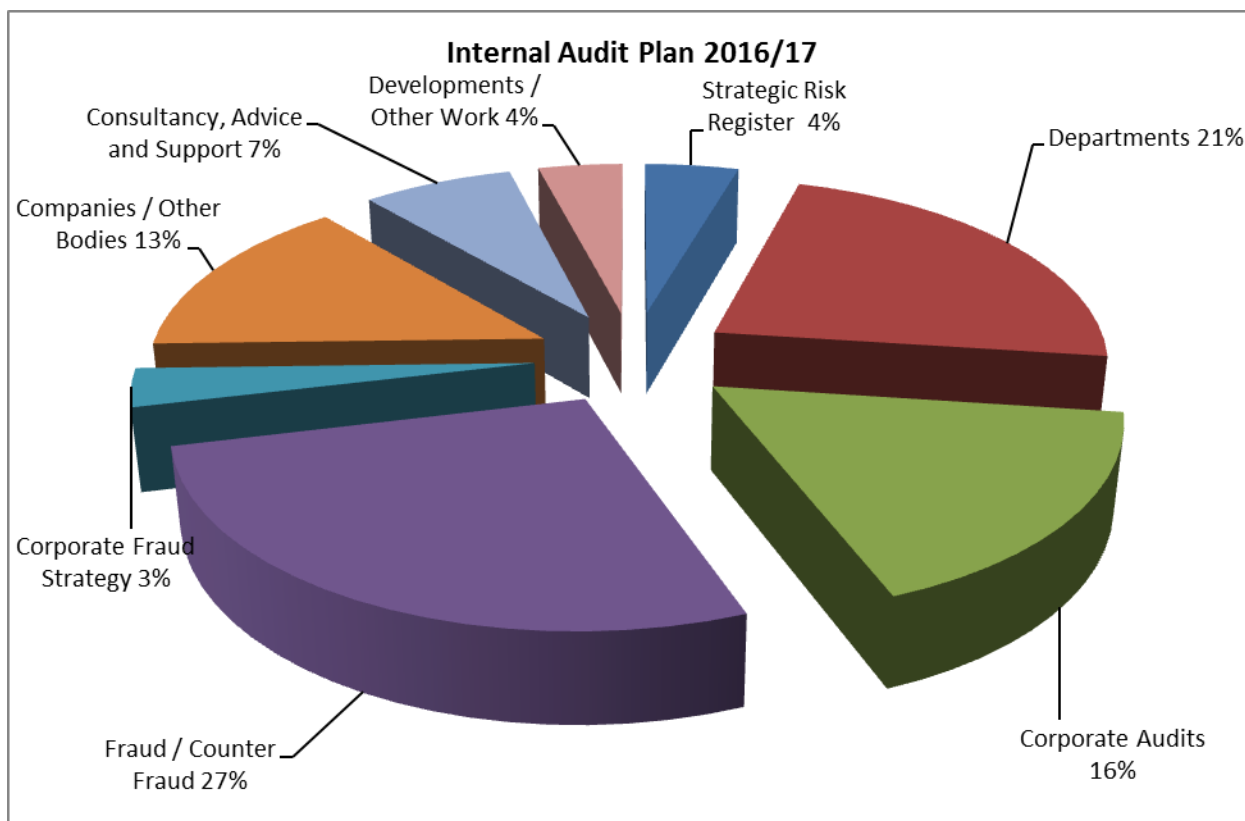
- The Corporate Risk Register and the requirements of Council objectives
- Consultations with Directors, senior officers and meetings with DLTs
- The requests of the external auditor (KPMG)
- Meeting with partners, particularly EMSS
- Requirements of the Chief Finance Officer (S151 Officer)
- Review of the External Audit and other independent Inspections' reports
- IA Risk Model informed by cumulative audit knowledge and experience and meetings with senior colleagues
- Engagement with Core Cities Heads of Audit
- Professional judgement on the risk of fraud and error

The illustration below depicts how the plan meets the client and risk demands

Internal Audit Plan 2016/17 - work by client function
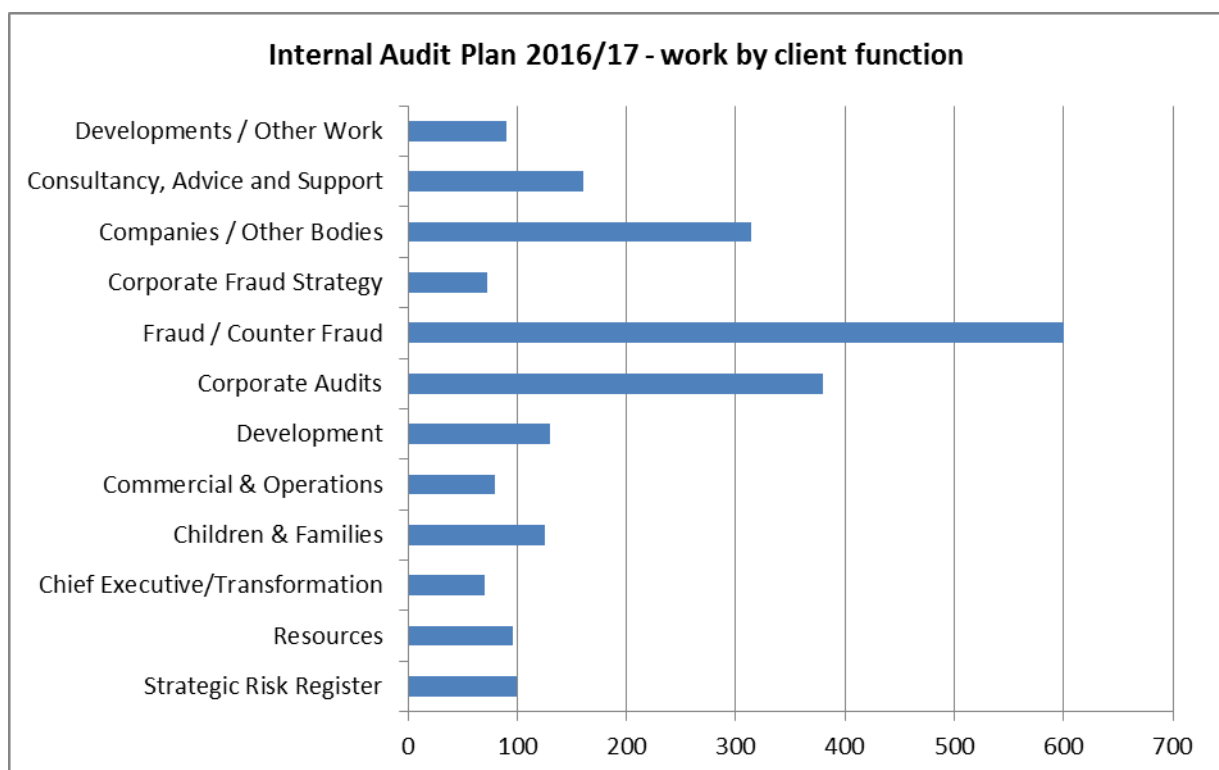
4.7. As was the case when developing previous plans, the Council is continuing to go through a period of radical change giving rise to significant changes to financial and colleague resources available. Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (threats). The reduction in the workforce for example, provides opportunity for a breakdown in control as well as an opportunity to improve service delivery.

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

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

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

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

The Illustration below shows the plan by type of activity undertaken

Internal Audit Plan 2016/17

- Developments / Other Work 4%
- Consultancy, Advice and Support 7%
- Companies / Other Bodies 13%
- Corporate Fraud Strategy 3%
- Fraud / Counter Fraud 27%
- Strategic Risk Register 4%
- Departments 21%
- Corporate Audits 16%

5. **Standards**

5.1. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place and is ISO9001:2008 accredited. IA has adopted the standards contained in the PSIAS and its compliance has been confirmed by independent review. The service has fulfilled the requirements of the Account & Audit Regulations 2015 and associated regulations in respect of the provision of an internal audit service.

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

This page is intentionally left blank