



NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 1 July 2016

Time: 10.30 am

Place: LH 2.13 - 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

- 1 APOLOGIES FOR ABSENCE**
- 2 DECLARATIONS OF INTERESTS**
- 3 MINUTES** 3 - 8
Of the meeting held on 13 May 2016 (for confirmation).
- 4 HOUSING BENEFITS RISK-BASED VERIFICATION** 9 - 18
Report of Director of Strategic Finance.
- 5 ACCOUNTS TRAINING** 19 - 36
Provided by Sue Risdall of Corporate Finance. (submitted following the meeting).
- 6 KPMG EXTERNAL AUDITORS UPDATE**
Verbal update by KPMG, External Auditors.
- 7 EXTERNAL AUDIT QUESTIONS TO THOSE CHARGED WITH GOVERNANCE 2015/2016** 37 - 40
Report of the Chair of the Audit Committee.
- 8 AUDIT COMMITTEE CHAIR'S ANNUAL REPORT 2015/2016** 41 - 56
Report of the Chair of the Audit Committee.
- 9 TREASURY MANAGEMENT 2015/16 ANNUAL REPORT** 57 - 70
Report of the Corporate Director of Resilience.

10	UPDATE ON THE REVIEW AND IMPROVEMENT OF THE DELIVERY OF STRATEGIC RISK MANAGEMENT Report of the Director of Strategic Finance.	71 - 72
11	INTERNAL AUDIT CHARTER Report of the Head of Audit and Risk.	73 - 78
12	INTERIM ANNUAL GOVERNANCE STATEMENT 2015/16 Report of the Director of Strategic Finance.	79 - 110
13	INTERNAL AUDIT ANNUAL REPORT 2015/16 Report of the Head of Audit and Risk	111 - 130
14	EAST MIDLANDS SHARED SERVICES UPDATE Report of the Director of Strategic Finance.	131 - 132
15	EXCLUSION OF THE PUBLIC To consider excluding the public from the meeting during consideration of the remaining items in accordance with section 110a(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.	
16	EMSS UPDATE EXEMPT APPENDIX	133 - 170

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 Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 13 May 2016 from 10.32 - 11.46

Membership

Present

Councillor Sarah Piper (Chair)
Councillor Steve Young (Vice Chair)
Councillor John Hartshorne
Councillor Anne Peach
Councillor Andrew Rule
Councillor Malcolm Wood

Absent

Councillor Toby Neal
Councillor Leslie Ayoola
Councillor Dave Liversidge

Colleagues, partners and others in attendance:

Shail Shah	- Head of Audit and Risk
Paul Clarke	- Finance System Development Team Leader
Elaine Fox	- Policy Officer
Kerry Ferguson	- Policy Development Manager
Jane O'Leary	- Insurance Risk Manager
Sue Risdall	- Finance Analyst
Richard Walton) KPMG External Auditors
Tony Crawley)
Catherine Ziane-Pryor	- Governance Officer

1 APPOINTMENT OF VICE CHAIR

RESOLVED that Councillor Steve Young is appointed Vice-Chair for the 2016-17 municipal year.

2 APOLOGIES FOR ABSENCE

Councillor Toby Neal
Councillor Dave Liversidge (other Council business)

3 MINUTES

The minutes of the meeting held on 26 February 2016 were confirmed as a true record and signed by the Chair.

4 DECLARATIONS OF INTERESTS

None.

5 ORACLE DASHBOARD

Paul Clarke, Finance System Development Team Leader, delivered a presentation which provided an overview of the Oracle Dashboard and highlighted the following points:

- (a) Oracle is a Corporate integrated system used by the Payroll, Finance and Human Resources sections of the City Council, within the East Midlands Shared Services partnership, and replaces the former system which was not sustainable;
- (b) Oracle gives managers the tools to take responsibility for and ownership of their own budgets and, with initial support, move away from finance control from other sections;
- (c) information entered directly in the system removes process duplication and increases visibility of the information;
- (d) the focus on accuracy of ledgers continues;
- (e) the new proposed structure works with an increased emphasis on self-service and is predicted to be implemented during September 2016;
- (f) the new structure focuses on 5 key functions of Transactional, Commercial, Strategic, Technical, and System Developments;
- (g) risk arrangements are plotted against forecasts and the system identifies the extent of any differences with colour coded alerts. If any information is over written, this is highlighted, displaying the details of the changes made;
- (h) different service areas will have differing numbers of budgets depending on the services provided;
- (i) Budget Managers are able to nominate Team Leaders to manage budgets, but will still be able to monitor the information;
- (j) Forecasts provide detailed mapping of planned spend against what has actually been spent;
- (k) Seeking and identifying improvements to the system is on-going;
- (l) Oracle is in use across the Council with the exception of Social Care and Property colleagues who are to acquire their own systems which will eventually link into Oracle;
- (m) Strategic managers will be able to access broader range of information to ensure an overview of service activity.

Paul responded to Councillor's questions as follows:

- (n) the system enables tracking of how and if budget forecasts have been met but does not provide analysis of management techniques beyond budget compliance although detail of transactions, including what may be outstanding, and the reasons input for over and underspend against the budget can be retrieved;
- (o) if a trend in overspend emerges, this will trigger notification that corrective action needs to be taken, but this is dependent on the type of service and whether peaks and troughs of activity are to be expected.

RESOLVED

- (1) to record the thanks if the Committee to Paul Clarke for his attendance and demonstration of the Oracle dashboard;**
- (2) for Paul Clarke to be invited to demonstrate the HR dashboard to the Committee at a future meeting.**

6 PARTNERSHIP GOVERNANCE VERIFICATION OF HEALTH CHECKS

Elaine Fox, Policy Officer, presented the report and highlighted the following points:

- (a) the partnerships selected for verification on this cycle where;
 - (i) Children's Partnership Board;
 - (ii) Green Nottingham Partnership;
 - (iii) N2 Skills and Employment Board;
- (b) no significant concerns have been raised about any of the partnerships but recommendations had been made with regard to keeping information up-to-date. All three partnerships have accepted these recommendations;
- (c) with regard to the Green Nottingham Partnership Board, they were unable to retrieve some of the requested documents, and the terms of reference had not been refreshed in four years. Significant improvements are expected now that a new Head of Energy and Sustainability is in post. It is noted that this partnership does not receive any City Council funding or formal administrative support, but alternative resources are being sought to support the partnership. There was a minor reputational risk concern if the Local Authority were to completely withdraw from the partnership. It is proposed that the partnership will be re-verified in November 2016 and then again in two years' time;
- (d) the Corporate Policy Team will provide a document checklist to enable organisations to appreciate what is required by City Council;
- (e) partnerships undertake a self-assessment annually with three selected each year for verification of documents on a rolling programme; each partnership will be verified at least every four years.

Members commented as follows:

- (f) reputational risk to the City Council should be taken into consideration when verifying partnerships; It is requested that the membership of Green Nottingham Partnership is circulated to Committee members;
- (g) it's not clear why some of the more affluent organisations within the Green Nottingham Partnership were not contributing to its administration;
- (h) the objectives of the Partnership, available on their website, appeared to be confused as they do not purely focus on the green agenda and do not mention air quality which is currently an issue of concern;
- (i) the Green Nottingham Partnership would benefit from member involvement, if it does not already have this, to ensure that the work of the Partnership does not duplicate that of the City Council;
- (j) all partnerships need a forward plan with proper consideration to objectives and methods of measuring the extent to which those objectives have been achieved;
- (k) whilst finance is important, value for money and effectiveness of all partnerships should also be considered;
- (l) all partnerships could be advised on methods to help them 'work smarter'.

RESOLVED

- (1) to note is the key findings from the verification of the health checks of three partnerships on the register of significant partnerships;**

- (2) for the concerns raised by Committee members regarding partnerships' objectives and potential associated reputational risk, to be referred to the Overview and Scrutiny Committee for consideration as part of their work programme;**
- (3) in addition to the verification, for further in-depth committee consideration of individual partnerships to take place on annual basis with leading officers of those organisations invited to the meeting to respond to the committee's questions which should include seeking assurance that:**
 - (i) value for money is achieved for Council officer time and resources spent on the partnership;**
 - (ii) the City Council's reputation will not be damaged by participating in the partnership.**

7 KPMG EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

Richard Walton and Tony Crawley of KPMG External Auditors presented the report which updates the Committee on the progress in delivering their responsibilities as external auditors, and identified key technical issues which are impacting on Local Government.

Updates on the following areas of work are provided within the report:

- (a) Financial statements;
- (b) Value for money;
- (c) Certification of claims and returns;
- (d) Other more specific work including:
 - (i) assessing risk associated with Robin Hood Energy;
 - (ii) the results of the Local Government Budget Holder Survey;
 - (iii) Local Government Early Close Workshop hosted by KPMG.

Technical updates were assessed as low impact for capital receipts flexibility and better care fund policy framework 2016/17.

Shail Shah suggested that if members were concerned, the Committee could consider in more detail City Council controlled companies, such as Robin Hood Energy, to seek assurance on business objectives and monitoring of achievements as part of the Committee's work plan.

Councillor's questions were responded to as follows:

- (a) political direction is taken into account when comparing Nottingham City Council with other similar Local Authorities;
- (b) KPMG have audited Sheffield Regional Combined Authority, where some functions are devolved and found that in effect there were no changes to the risk/impact concerns as a result of this specific circumstance, particularly as many such local authorities attract funding from Central Government.

RESOLVED to note the report.

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

Jane O'Leary, Insurance Risk Manager, verbally updated the Committee on the review and improvement of the delivery of Strategic Risk Management, highlighting the following points:

- (a) the benchmarking exercise has provided a very diverse image of different levels of process and effectiveness, some good, some not;
- (b) consideration is being given as to how issues have been escalated to the Corporate Leadership Team (CLT) without informing the Corporate Risk Register. A lot of work is being done to create a strategy which ensures better identification of risk and escalation to CLT. This will include extensive training;
- (c) the draft strategy will be presented to the Committee at the July meeting with a draft implementation timetable and will look very different to the current strategy and listings.

Councillor's questions and comments were responded to as follows:

- (d) there is a lot of good risk management already taking place within the Council but some is not necessarily reported within reasonable timeframes, if at all, so implementing the new strategy is a matter of urgency.

RESOLVED

- (1) to note the progress of the Risk management Strategy;**
- (2) for Councillor Steve Young to meet with Jane O'Leary to discuss the draft strategy in advance of the July Audit Committee.**

9 INTERNAL AUDIT PLAN 2016-17

Shail Shah, Head of Internal Audit, presented the report which outlines the Internal Audit Work Plan for 2016/17. A more detailed plan is available to members of the Committee on request.

Changes are proposed nationally on how External Auditors are appointed. There may be an option for a sector led appointment, Local Authorities may be able to appoint their own External Auditors, or join with other bodies to do so. If available, further details will be provided at the July meeting but appointments must be made by the end of 2017.

Shail Shah responded to Councillor's questions, that fraud and counter fraud continued to be allocated a large proportion of audit time and resources as this was an important area of work. In previous years some of this work was not shown on the main audit plan and was undertaken by the Benefits Investigation Team. The focus has shifted to a proactive fraud prevention approach such as undertaking fraud checks at the early stages of processes such as 'right to buy' of council houses. It is noted that 18 properties were found to be the subject of tenancy fraud in the past year.

RESOLVED to endorse the Internal Audit Plan 2016/17.

10 FUTURE MEETING DATES

RESOLVED for the Committee to meet at 10.30am, in Loxley House, on the following dates:

2016

1 July

16 September

25 November

2017

24 February

28 April

AUDIT COMMITTEE – 1st July 2016

Title of paper:	Housing Benefit – Risk-Based Verification	
Director(s)/ Corporate Director(s):	Glen O’Connell – Corporate Director of Resilience. Geoff Walker – Director of Strategic Finance.	Wards affected: All
Report author(s) and contact details:	Ian Roper – Commercial Finance Team Leader. 0115 8763856 ian.roper@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note the adoption of a risk-based approach to the verification of new claims for Housing Benefit	

1 REASONS FOR RECOMMENDATIONS

- 1.1 It is recommended that Audit Committee note Section 3 of the 2016/17 Risk-Based Verification Policy signed by Geoff Walker, Director of Strategic Finance, which explains the revised verification standards to be applied to new claims for Housing Benefit.

2 BACKGROUND

- 2.1 Risk-Based Verification (RBV) allows for more intensive verification activity to be focussed on claims more prone to fraud and error. It will help overcome many of the problems and issues arising from existing verification methods used to assess a new claim for Housing Benefit and Council Tax Support/reduction. The current method is labour intensive, slow and inflexible and leads to delays in the award of benefit.
- 2.2 The Department for Work and Pensions together with a range of partners using multi-agency data has undertaken work to classify claims as **low**, **medium** or **high** risk, depending on a range of outcome indicators. Using complex algorithms an output is created that predicts the likelihood of one of the indicators being triggered in the life-cycle of a claim. A range of 48 predictors are used to produce the ranking.
- 2.3 This approach will enable Benefit Officers to focus their efforts on those high risk cases, requiring full verification, whilst relaxing verification requirements on medium and low risk applications.
- 2.4 Some of the key benefits of RBV are that processing times for new claims will be improved; the resource being deployed into other value added activities. Customer satisfaction will be improved by determining and paying benefit quicker. Fraud and error will be identified before it enters the system, reducing overpayments and the need for lengthy fraud investigations.

- 2.5 In the early 1990's the Department for Work and Pensions introduced a "verification framework policy" for the administration of Housing and Council Tax Benefit claims. This voluntary policy was supported with funding if LA's adopted the approach. The Verification Framework Policy (VF) required councils to obtain full and detailed documentary evidence of identity, income, capital and household members in addition to undertaking pre and post-payment residency checks.
- 2.6 VF once adopted allowed no flexibility in approach, whilst this delivered consistency in approach, VF proved to be both costly and caused significant delays in processing. Although VF was abandoned in 2006 by Department for Work and Pensions, most Council's including Nottingham have continued to use at least some of the guidelines set out in the framework.
- 2.7 In 2011, the Department for Work and Pensions allowed a limited number of Councils to pilot a different type approach to verification based on risk-scoring principles, as outlined above. The pilots proved to have been a success and the Department for Work and Pensions confirmed that all Councils could consider the process. (Housing Benefit and Council Tax Benefit Circular HB/CTB S11/2011)

Legislation

- 2.8 The Council must adhere both to Housing Benefit legislation and the associated Case Law from the High Court and equivalent and above. The regulations themselves do not specify what information and evidence should be obtained before a claim for Housing Benefit can be paid. However, the law does enable each authority to obtain the information it needs to allow an accurate assessment of each claimant's entitlement to Housing Benefit.

Housing Benefit Regulation 86 states

"a person who makes a claim, or a person to whom housing benefit has been awarded, shall furnish such certificates, documents, information and evidence in connection with the claim or the award, or any question arising out of the claim or the award, as may reasonably be required by the relevant authority in order to determine that person's entitlement to, or continuing entitlement to housing benefit and shall do so within one month of being required to do so or such longer period as the relevant authority may consider reasonable."

Section 1 of the Social Security (Administration) Act 1992 requires each claimant to provide a valid national Insurance number or sufficient information to trace or allocate one. This legislation applies to both claimants and their partners as appropriate.

(1A) No person whose entitlement to any benefit depends on his making a claim shall be entitled to the benefit unless subsection (1B) below is satisfied in relation both to the person making the claim and to any other person in respect of whom he is claiming benefit.

(1B) This subsection is satisfied in relation to a person if –

(a) The claim is accompanied by–

(i) A statement of the person's national insurance number and information or evidence establishing that that number has been allocated to the person; or

(ii) Information or evidence enabling the national insurance number that has been allocated to the person to be ascertained; or

(b) The person makes an application for a national insurance number to be allocated to him which is accompanied by information or evidence enabling such a number to be so allocated.

- 2.9 An IT solution (Xantura/Northgate), using the outcome predictors described in the Policy Summary will be utilised to obtain the risk category.

From Go-Live (To be agreed) each new Housing Benefit/Council Tax Support claim will be ranked into one of three risk categories;

- Low
- Medium
- High

Claimants in each risk group will be required to provide varying degrees of supporting evidence and documentation before their claim can be processed. A national insurance number and proof of identity **must** be provided in all three risk categories.

Low Risk

It is anticipated that around 55% of all new claims will be deemed to be low risk. Low risk claims will normally be paid based on the information provided on the claim form subject to verification of identity.

Medium Risk

Around 25% of new claims will be deemed to be medium risk. Additional information and evidence will normally be required for this group of claims.

The medium risk evidence requirements mimic the current approach to verification standards.

High Risk

The remaining 20% of claims will be deemed to be high risk. As well as a full verification check, an additional check will be carried out on this risk of claim. Additional checks may include one or more of: home visits, telephone checks, credit reference checks.

Audit requirements

- 2.10 Both Internal Audit and Public Sector Audit have been notified and consulted on the adoption of this RBV Policy as this will influence future operational audits and also that of the main Housing Benefit Subsidy Claim.

Revenues & Benefits will report periodically to The Audit Committee at regular intervals post-implementation.

Recording, Monitoring and Performance Reporting

- 2.11 Detailed records of risk scores will be maintained and reviewed to ensure on-going compliance with Regulations.

Cases cannot be downgraded at any time by a Benefits Officer, but they may be increased through approval of their Team Leader. All cases upgraded will be recorded, reasons may include previous fraudulent claims, late notification of changes

in circumstances, or where there is good reason to doubt the veracity of the information provided.

The IT solution incorporates “blind-sampling”, whereby 5% of low risk cases will be returned as high-risk, requiring full verification.

Prior to go-live a baseline of fraud and error in the existing HB caseload will be established. This will enable monitoring of the impact of RBV to be closely monitored and gauged. In addition, a suite of complementary indicators will be captured to map customer experience, this will include:-

- Speed of Processing New Claims.
- % of New Claims determined.
- % of New Claims Inferred.
- % of New Claims paid within 14-days.
- Time taken from last Information Received Date to Decision Date.
- Cases in Pending rates.
- Customer service – Volumes of face to face and telephone contacts and average waiting times.

Review

The RBV policy will be reviewed annually and any changes will be referred to the Section 151 officer for approval. In accordance with DWP guidance, changes to the policy will not be made in-year as this would complicate the audit procedures.

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 DWP Circular S11/2011
Housing Benefit Regulation 2006
Social Security (Administration Act 1992
Department for Work & Pensions Verification Framework



Risk Based Verification Policy

Financial Year 2016/17

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Policy Summary:

Risk-Based Verification (RBV) allows for more intensive verification activity to be focussed on claims more prone to fraud and error. It will help overcome many of the problems and issues arising from existing verification methods used to assess a new claim for Housing Benefit and Council Tax Support/reduction. The current method is labour intensive, slow and inflexible and leads to delays in the award of benefit.

The Department for Work and Pensions together with a range of partners using multi-agency data has undertaken work to classify claims as **low, medium or high** risk, depending on a range of outcome indicators. Using complex algorithms an output is created that predicts the likelihood of one of the indicators being triggered in the life-cycle of a claim. A range of 48 predictors are used to produce the ranking.

This approach will enable Benefit Officers to focus their efforts on those high risk cases, requiring full verification, whilst relaxing verification requirements on medium and low risk applications.

Some of the key benefits of RBV are that processing times for new claims will be improved; the resource being deployed into other value added activities. Customer satisfaction will be improved by determining and paying benefit quicker. Fraud and error will be identified before it enters the system, reducing overpayments and the need for lengthy fraud investigations.

1.0 Background

In the early 1990's the Department for Work and Pensions introduced a "verification framework policy" for the administration of Housing and Council Tax Benefit claims. This voluntary policy was supported with funding if LA's adopted the approach. The Verification Framework Policy (VF) required councils to obtain full and detailed documentary evidence of identity, income, capital and household members in addition to undertaking pre and post-payment residency checks.

VF once adopted allowed no flexibility in approach, whilst this delivered consistency in approach, VF proved to be both costly and caused significant delays in processing. Although VF was abandoned in 2006 by Department for Work and Pensions, most Council's including Nottingham have continued to use at least some of the guidelines set out in the framework.

In 2011, the Department for Work and Pensions allowed a limited number of Councils to pilot a different type approach to verification based on risk-scoring principles, as outlined above. The pilots proved to have been a success and the Department for Work and Pensions confirmed that all Councils could consider the process. (Housing Benefit and Council Tax Benefit Circular HB/CTB S11/2011)

2.0 Legislation

The Council must adhere both to Housing Benefit legislation and the associated Case Law from the High Court and equivalent and above. The regulations

themselves do not specify what information and evidence should be obtained before a claim for Housing Benefit can be paid.

However, the law does enable each authority to obtain the information it needs to allow an accurate assessment of each claimant's entitlement to Housing Benefit. Housing Benefit Regulation 86 states

“a person who makes a claim, or a person to whom housing benefit has been awarded, shall furnish such certificates, documents, information and evidence in connection with the claim or the award, or any question arising out of the claim or the award, as may reasonably be required by the relevant authority in order to determine that person's entitlement to, or continuing entitlement to housing benefit and shall do so within one month of being required to do so or such longer period as the relevant authority may consider reasonable.”

Section 1 of the Social Security (Administration) Act 1992 requires each claimant to provide a valid national Insurance number or sufficient information to trace or allocate one. This legislation applies to both claimants and their partners as appropriate.

(1A) No person whose entitlement to any benefit depends on his making a claim shall be entitled to the benefit unless subsection (1B) below is satisfied in relation both to the person making the claim and to any other person in respect of whom he is claiming benefit.

(1B) This subsection is satisfied in relation to a person if –

(a) The claim is accompanied by–

*(i) A statement of the person's national insurance number and information or evidence establishing that that number has been allocated to the person; or
(ii) Information or evidence enabling the national insurance number that has been allocated to the person to be ascertained; or*

(b) The person makes an application for a national insurance number to be allocated to him which is accompanied by information or evidence enabling such a number to be so allocated.

3.0 Risk Based Verification

An IT solution (Xantura/Northgate), using the outcome predictors described in the Policy Summary will be utilised to obtain the risk category.

From Go-Live (To be agreed) each new Housing Benefit/Council Tax Support claim will be ranked into one of three risk categories;

- Low
- Medium
- High

Claimants in each risk group will be required to provide varying degrees of supporting evidence and documentation before their claim can be processed. The table at Appendix A shows the different requirements in more detail. A national insurance number and proof of identity **must** be provided in all three risk categories.

Low Risk

It is anticipated that around 55% of all new claims will be deemed to be low risk. Low risk claims will normally be paid based on the information provided on the claim form subject to verification of identity as shown in Appendix A.

Medium Risk

Around 25% of new claims will be deemed to be medium risk. Additional information and evidence will normally be required for this group of claims as shown in Appendix A.

The medium risk evidence requirements mimic the current approach to verification standards.

High Risk

The remaining 20% of claims will be deemed to be high risk. As well as a full verification check, an additional check will be carried out on this risk of claim. Additional checks may include one or more of: home visits, telephone checks, credit reference checks.

4.0 Audit requirements

Both Internal Audit and Public Sector Audit have been notified and consulted on the adoption of this RBV Policy as this will influence future operational audits and also that of the main Housing Benefit Subsidy Claim.

Revenues & Benefits will report periodically to The Audit Committee at regular intervals post-implementation.

5.0 Recording, Monitoring and Performance Reporting

Detailed records of risk scores will be maintained and reviewed to ensure on-going compliance with Regulations.

Cases cannot be downgraded at any time by a Benefits Officer, but they may be increased through approval of their Team Leader. All cases upgraded will be recorded, reasons may include previous fraudulent claims, late notification of changes in circumstances, or where there is good reason to doubt the veracity of the information provided.

The IT solution incorporates "blind-sampling", whereby 5% of low risk cases will be returned as high-risk, requiring full verification.

Prior to go-live a baseline of fraud and error in the existing HB caseload will be established. This will enable monitoring of the impact of RBV to be closely monitored and gauged. In addition, a suite of complementary indicators will be captured to map customer experience, this will include:-

- Speed of Processing New Claims.

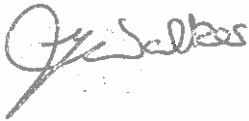
- % of New Claims determined.
- % of New Claims Inferred.
- % of New Claims paid within 14-days.
- Time taken from last Information Received Date to Decision Date.
- Cases in Pending rates.
- Customer service – Volumes of face to face and telephone contacts and average waiting times.

6.0 Review

The RBV policy will be reviewed annually and any changes will be referred to the Section 151 officer for approval. In accordance with DWP guidance, changes to the policy will not be made in-year as this would complicate the audit procedures.

7.0 Policy sign-off

This policy is signed off by



Mr Geoff Walker

Director of Strategic Finance

Date... 25/5/16

The Statement of Accounts 2015/2016 AUDIT COMMITTEE TRAINING

Audit Committee Training June 2016
Technical Team

The main messages from the 2015/16 Statement of Accounts

The key performance information can be shown by:

- General Fund and HRA performance
- Reserves position
- Cash flows
- Comparisons with budget

General Fund Performance 2015/16

Comprehensive Income and Expenditure Statement			2015/16	
	Gross Expenditure	Gross Income	Net	
	£m	£m	£m	
Central services to the public	3.547	(2.182)	1.365	
Cultural and related services	51.112	(29.365)	21.747	
Environmental and Regulatory services	57.742	(23.311)	34.431	
Planning Services	43.615	(25.992)	17.623	
Education and children's services	271.126	(173.773)	97.353	
Highways and transport services	153.494	(94.371)	59.123	
Local authority housing (HRA)	81.961	(109.958)	(27.997)	
Other housing services	172.229	(153.492)	18.737	
Adult social care	143.013	(55.390)	87.623	
Public Health	16.658	(16.184)	0.474	
Corporate and democratic core	27.068	(19.727)	7.341	
Non distributed costs	(4.154)		(4.154)	
Cost of Services	1,017.411	(703.745)	313.666	Expenditure on continuing operations, analysed by service
Other operating expenditure			49.184	
Financing and investment income and expenditure			59.982	
Taxation and non-specific grant income			(291.528)	
(Surplus)/Deficit on Provision of Services			131.304	Operational costs of providing services
Revaluation of PPE/Heritage assets			(50.630)	
Re-measurement of pension assets/liabilities			(123.604)	
Other gains/losses recognised required			0.013	
Other Comprehensive Income and Expenditure			(174.221)	
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			(42.917)	Total income and expenditure for the year



General Fund Performance 2015/16

The Comprehensive Income and Expenditure Statement (CIES) is split into two parts.

- The first part reflects the full cost of providing services and is shown as a surplus or deficit on the Provision of Services line. It represents the operating costs of providing the services of the Council in the year. In the private sector this would be equivalent to the profit or loss of a company.
- The second part called 'Other Comprehensive Income and Expenditure' shows the gains and losses in the measurement of the Councils assets and liabilities. These gains and losses arise from changes in market valuation, changes in interest rates or changes to the measurement assumptions for pension assets and liabilities.

The Balance Sheet 2015/16

The Balance Sheet shows the Council's financial position at the year end and is made up of two parts, net assets balanced by total reserves.

	31 March 2015	31 March 2016
	£m	£m
Long Term Assets	2,162.155	2,352.221
Net Current Assets	78.262	(36.088)
Long Term Liabilities	(1,519.917)	(1,552.716)
NET ASSETS	720.500	763.417
Useable Reserves	250.884	252.490
Unusable Reserves	469.616	510.927
TOTAL RESERVES	720.500	763.417



Reserves 2015/16

The level of reserves indicate the resources available to the Council to deliver services in the future. The table below gives a high level break down of reserves balances from the draft Statement of Accounts. The next four slides give more detailed information on reserves.

	31 March 2015 £m	Movement 2015/16 £m	31 March 2016 £m
Useable Reserves			
General Fund	19.553	(8.322)	11.231
Earmarked General Fund Reserves	160.105	14.826	174.931
Other Usable Reserves	71.226	(4.898)	66.328
Unusable Reserves	469.616	41.311	510.927
TOTAL AUTHORITY RESERVES	720.500	42.917	763.417



Understanding Reserves

Types of Reserves



Usable - General Fund (Unallocated)

- To deal with day to day variations and emerging trends.
- Emergencies and unforeseen events
- Determined by a detailed risk assessment
- Minimum level to balance prudent provision with releasing funds for services 2%-4%
- £11.231m = 4.6% of 2016/17 net budget requirement (£243.878m), but plans to allocate some of this during 2016/17
- Higher reserves prudent in current financial climate for Local Authorities.

Understanding Reserves

Types of Reserves



Usable - Earmarked

- At the discretion of the Council
- For specific items of anticipated future expenditure (sometimes capital)
- Smooths out expenditure that occurs in “lumps” over years e.g. equal pay
- Timing differences in funding and spend e.g. PFI schemes
- Some are ring-fenced, particularly Schools

Understanding Reserves

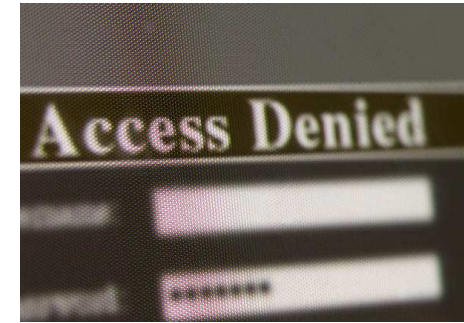
Usable Earmarked Reserves



	Balance at 31 March 2015 £m	Balance at 31 March 2016 £m
Restricted Reserves:		
Schools	24.122	21.864
Capital	12.140	10.498
Other Reserves:		
Private Finance Initiatives	35.552	46.288
Investment	21.880	17.253
Contingency	17.238	30.631
Services	10.733	12.811
Workforce Issues	8.097	9.082
Business Transformation	7.687	5.313
Local Economy	7.484	6.376
Information Technology	7.015	6.485
Insurance & Risk		
Management	4.779	4.863
Asset Maintenance	3.378	3.467
	160.105	174.931



Unusable Reserves



Reflect technical adjustments to the accounts and cannot be used to support Council Tax/General Fund:

- Revaluation of assets
- Timing differences between funding basis and IFRS accounting basis
- Financing and depreciation of capital expenditure

Cash Flow Statement 2015/16

The Cash Flow Statement shows net cash flows and the cash available at the end of the year.

	2014/15	2015/16	
	£m	£m	
Net Surplus/(Deficit) on the provision of Services	(68.036)	(131.304)	→ Surplus taken from CIES
Adjustments to net surplus or deficit on the provision of services for non-cash movements	223.820	224.396	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(84.822)	(71.341)	3 groups of transactions
Net Cash Flows from Operating Activities	70.962	21.751	→ Operating
Investing activities	(57.025)	59.702	Investing
Financing activities	(19.569)	(102.902)	Financing
Net Increase or Decrease in Cash and Cash Equivalents	(5.632)	(21.449)	
Cash and cash equivalents at the beginning of the reporting period	59.041	53.409	
CASH AND CASH EQUIVALENTS AT 31 MARCH 2016	53.409	31.960	→ Cash and cash equivalents figure in the Balance Sheet



Comparison with Budgets - IFRS vs Funding Basis Principles

- Legislation requires councils to set budget and council tax according to certain treatments, including:
 - Long term assessment of pension position
 - Use of capital receipts/grants for capital
 - Repayment of debt to replace depreciation
- International Financial Accounting Standards (IFRS) use a different approach:
 - Pension Fund and other assets (PPE) valued annually and movement is recognised in CIES
 - Capital receipts/grants recognised as revenue income
 - Use of depreciation

IFRS vs Funding Basis

Impact

- Timing differences in recognition of income and expenditure
- Creation of Unusable Reserves to hold the differences created by IFRS
- Total CIES moves from £9.986m surplus to a surplus of £42.917m
- Unusable reserves of £510.927m
- Pension Scheme liability of £623.310m

IFRS vs Funding Basis The Adjustments

	2015/16 £m
Funding Basis	
Net Portfolio Spend	254.125
(Use)/Contributions to Reserves included above	(14.555)
Expenditure financed from Council Tax and Non-specific Grants	239.570
Council Tax and NNDR	(148.456)
Non-Specific Grants	(101.100)
(SURPLUS)/DEFICIT ON FUNDING BASIS BEFORE TRANSFERS TO RESERVES	(9.986)
ADJUSTMENTS TO MOVE TO ACCOUNTING BASIS	
Other Comprehensive Items	
Revaluation of Property, Plant and Equipment / Heritage assets	(50.630)
Re-measurement of pension assets/liabilities	(123.604)
Other gains/losses recognised	0.013
Movements In Non Current Assets	190.844
Capital Financing	
Revenue Expenditure Funded From Capital Under Statute	3.125
Provision for Debt Redemption	(34.733)
Cap Exp charged to GFB - DRF	(1.207)
Cap Exp charged to GFB - Reserves	
Transfer from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	2.147
Pension Fund - IAS 19 Adjustments	26.326
Other Movements	
Capital Grants & Contributions	(37.242)
Financial Instrument Adjustment Account	0.333
Transfer to/(from) Collection Fund Adjustment Account	-
Employee Benefits	0.191
Additional items required by Accounting Basis:	
Housing Revenue Account	(9.766)
Other Smaller Adjustments	1.272
Total Comprehensive Income & Expenditure	(42.917)



Group Accounts Consolidation

- Subsidiaries/Trusts:
Line by line for CIES and Balance Sheet
- Associates/Joint Ventures:
Show Council's share of surplus in CIES and
as an investment in Balance Sheet
- All intragroup transactions and balances
removed

Group Accounts Principles

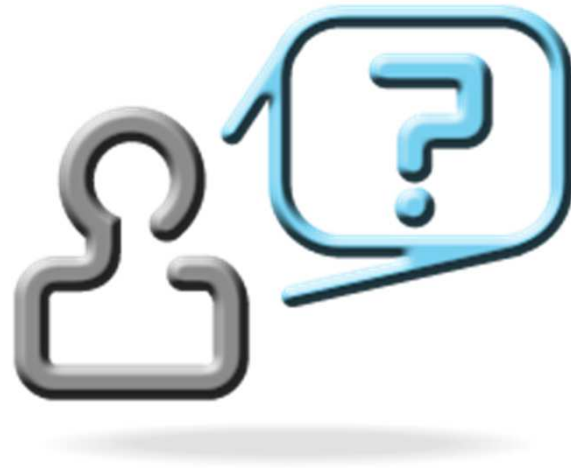
- Combines the results of subsidiaries, associates and joint ventures
- Subsidiaries/Trusts – Council obtains a return and has power to affect that return:
Enviroenergy, Nottingham City Homes, Nottingham City Transport, Ice Centre, NRB, Bridge Estate, Robin Hood Energy
- Associates/Joint Ventures – Council has significant influence/joint control:
Blueprint, Futures (both Joint Ventures)

Group Accounts Result

- Each line of CIES and B/S changes for impact of Subsidiaries/Trusts
- Total Surplus increases by £24.582m (group pension movements)

Statement of Accounts 2015/16

Questions



AUDIT COMMITTEE – 1 July 2016

Title of paper:	External Audit Questions to those Charged With Governance 2015/2016	
Director(s)/ Corporate Director(s):	Councillor Sarah Piper Chair of the Audit Committee	Wards affected: All
Report author(s) and contact details:	Councillor Sarah Piper Chair of the Audit Committee Email: sarah.piper@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note response given by the Chair of the Audit Committee to the External Auditor at Appendix 1.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 This report outlines the response by the Chair of the Audit Committee to the City Council's External Auditors' (KPMG) questions in respect of specific topics within the Committee's Remit.

2 BACKGROUND

- 2.1 KPMG are required by International Auditing Standards to ask certain questions of those charged with Governance and who are responsible for approving the accounts. The questions and responses are given as Appendix 1 to this report.

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 None.

Enquiries of the Chair of the Audit Committee - KPMG 2015/2016

Category	Detailed Description	Councillor Piper – Chair of the Audit Committee
Fraud	How do those charged with governance provide effective oversight of the entity's programs and controls to prevent, detect and deter fraud, including oversight over internal controls management has established to mitigate fraud risks?	<p>Nottingham City Council has a mature system of internal controls and clear line management arrangements. There is also a range of regulatory and scrutiny activities to minimise risk and maintain a sound internal control environment.</p> <p>The Council has a clear establishment structure with clear job descriptions and responsibilities and where appropriate, separation of duties and control. The Head of Audit and Risk uses a fully resourced and trained Corporate Counter Fraud Team to undertake proactive and investigative counter fraud activities. The Audit Committee has endorsed a Counter Fraud Strategy (including a bespoke schools version) which includes a fraud response plan directing staff to governance related policies and procedures. There is an online reporting mechanism for reporting suspected irregularities and a dedicated benefit fraud telephone hotline.</p> <p>There are controls in respect of councillors and officers who have membership of other organizations as follows:</p> <p>Members and officers Codes of Conduct with requirement to complete a Register of Interests and also declare interests at meetings. All formal meeting agendas include declaration of interests and a questionnaire is issued to all councillors and senior officers to ensure the data held relating to third parties is complete.</p> <p>Internal Audit, as part of its approved audit plan, completes data matching tests on creditors' data, matching against employees' data and duplicate payments. Data mining is also performed on council tax data, benefit claimants and social services payments.</p> <p>The Council also actively participates in the Cabinet Office's National Fraud Initiative.</p>

Fraud	What are your views about fraud risks at the entity?	<p>I am satisfied that the Head of Audit and Risk's risk based audit plan includes areas of perceived risk of fraud and allocates resources for their review accordingly. The Corporate Counter Fraud Team focusses more resources on combatting the risk of fraud. Areas of high risk undergo annual review and the Audit Committee receives reports regarding Internal Audit findings. Frauds are dealt with as a matter of priority, and lessons learnt are reported and publicised to mitigate future risks.</p> <p>Internal Audit takes note of fraud alerts issued e.g. by CIPFA to minimise risk of hacking scams and all IT audits look for resilience and security of IT systems. All staff are encouraged to participate in on-line fraud awareness training overseen by the Head of Audit and Risk.</p>
Fraud	Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?	<p>A fraud register is maintained to record and track the status of investigations related to fraud. Frauds are dealt with according to the Fraud Response Plan approved by the Audit Committee. I am unaware of any instance of material fraud including any misconduct or unethical behaviour related to financial reporting or misappropriation of assets</p>
Laws and regulations	How is the entity complying with the legal and regulatory framework?	<p>The Council's establishment incorporates all posts required by statute. These key roles are performed by the Council's Head of Paid Services, Monitoring Officer and Section 151 Officer. The roles of these officers are defined clearly in their job descriptions.</p> <p>The Constitution and its appendices also define the delegated roles and responsibilities of key post holders and decision making bodies of the Council. Changes to the Constitution including those to financial reporting are made at a meeting of Full Council.</p> <p>The Director of Strategic Finance undertakes the responsibilities of Section 151 Officer including responsibility to the Council for advice on financial matters, keeping financial records and accounts and maintaining effective systems of internal financial control.</p> <p>The role of the Monitoring Officer includes responsibility to the Council for</p>

ensuring that agreed procedures are followed including all applicable statutes, regulations and statements of good practice. The Monitoring Officer is also responsible for arrangements for whistle blowing. Professional advice is taken before making decisions with legal/financial implications, and reports to Boards and Committees include this advice.

The Council has budget and Policy Framework in place which set out how budget and policy decisions are made. A regular programme of work is carried out by Internal Audit and additional scrutiny committees, external audit and external inspection contribute to compliance with Council policies, procedures, laws and regulations.

Complaints can be made in various open and transparent ways including through the internet, councillors, the Director of the service or office responsible. Access to the Ombudsman is well publicised.

AUDIT COMMITTEE – 1 July 2016

Title of paper:	AUDIT COMMITTEE ANNUAL REPORT 2015/2016	
Director(s)/ Corporate Director(s):	Councillor Sarah Piper Chair of the Audit Committee	Wards affected: All
Report author(s) and contact details:	Councillor Sarah Piper Chair of the Audit Committee Email: sarah.piper@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note the work undertaken and approve the report at Appendix 1 .	

1 REASONS FOR RECOMMENDATIONS

- 1.1 This report outlines the work undertaken by the Audit Committee in 2015/2016 and explains how the Committee has filled its designated role within the Constitution and how this work relates to its core responsibilities.

2 BACKGROUND

- 2.1 The 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 An effective Audit Committee helps to raise the profile and effectiveness of internal control, risk management and financial reporting within the Council and should enhance public trust and confidence in the governance of the Council.
- 2.3 In order to demonstrate the effectiveness of the Committee and develop public trust, the Chair has produced this annual report in respect of its activities. It is aimed to develop the Council's commitment to improving corporate governance.
- 2.4 The report at **Appendix 1** summarises the work undertaken by the Committee during 2015/2016, shows the topics it discussed and uses its Terms of Reference to demonstrate how it met its objectives and responsibilities. The report recognises the positive contributions of councillors and colleagues in the deliberations of the Committee and the positive effect the Committee has had on the Council's governance arrangements. For the purpose of reporting, the report categorises the work under the broad themes below.
- Risk Management
 - Performance Management
 - External Audit
 - Internal Audit
 - Other Work

2.5 The work undertaken is, however, cross cutting and the work covered in each theme is complimentary to that reported in the other themes.

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 None.

Appendix 1

Audit Committee Annual Report 2015/2016

Foreword by the Chair

In this, my fourth annual report, I would again like to express my gratitude for the help I have received from committee members and to thank them all for their hard work and diligence. In particular I would like to thank Councillor Mike Edwards, who is stepping down as a full member of the Committee after a substantial period, and who has always been a dedicated and enthusiastic member of this Committee. I would also like to express my appreciation to the Head of Audit and Risk, who has supported the Committee throughout the year with advice and the provision of training, and also to Council colleagues and the providers of external assurances, who have attended our meetings and answered our questions. Indeed those who have attended the committee will be able to testify that appearing before the Audit Committee can be a challenging experience, since detailed questioning and responses are necessary for the Committee to assure itself of the Council's governance arrangements.

The following report summarises the work performed over the year 2015/2016 and describes how the Committee has contributed to the effectiveness of the Council by the work it has done including:

- Reviewing the mechanisms for the assessment and management of risk and thereby developing the Council's ability to respond to known and emerging risks;
- Managing a good working relationship with the External Auditor, ensuring appropriate action was taken on its recommendations and the most efficient use of external and Internal Audit was achieved;
- Overseeing the performance of the Internal Audit Service;
- Ensuring audit findings are actioned and consequently helping to improve the Council's effectiveness and governance arrangements;
- Monitoring of, and contribution to, the development of the Council's Statement of Accounts and overseeing the Council's Treasury Management arrangements; and
- Accepting new responsibilities for overseeing our partnership with other notable organisations.

Purpose of the Committee

Corporate governance is a phrase used to describe the mechanisms underpinning how the Council directs and controls its operations, and relates to the people of Nottingham. Good corporate governance requires organisations to undertake their functions with integrity and in a way that is accountable, transparent, effective and inclusive. My role of the Chair of the Audit Committee is to drive forward improvements on corporate governance. This means I must;

- Consider the reports of external audit and inspection agencies;
- Support the Committee in reviewing the financial statements, external auditor's opinion and reports to Councillors, and monitor management action in response to the issues raised by external audit;
- Support the Committee in reviewing the Council's integrated planning and performance framework;
- Support consideration of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;

- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors;
- Lead the Committee to be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- Lead approval (but not direct) Internal Audit's strategy, plan and monitor performance.
- Support the review of the summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted; and
- Lead the Audit Committee in procuring external audit if required.

Committee Aims

The Committee helps to raise the profile of internal control, risk management and financial reporting within the Council. The Committee enhances public trust and confidence in the governance of the Council. My annual report underlines this important work and demonstrates the Council's awareness and commitment to maintaining and improving corporate governance across all its dealings. In summary, the Committee's role is to challenge, assess and gather assurance from within the Council and from external agencies, on the level and quality of the internal control and risk management processes in place. It also approves Audit Plans, the Statement of Accounts, and AGS and monitors the robustness of performance management systems. The benefits to be gained from operating an effective 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 AGS);
- provides additional assurance through a process of independent and objective review.

Membership

The Audit Committee is made up of 9 non-executive councillors appointed to reflect the political balance of the Council and 1 independent member. The members of the Committee for 2015/2016 were:

Councillor Sarah Piper (Chair)
 Councillor Steve Young (Vice Chair)
 Councillor Mike Edwards
 Councillor John Hartshorne
 Councillor Dave Liversidge
 Councillor Anne Peach
 Councillor Toby Neal
 Councillor Malcolm Wood
 Councillor Andrew Rule

Work Undertaken

The following summary of activity is categorised by the main topic or source of the assurance. The work is reflective of the Committee's terms of reference shown at **Appendix A**, which is addressed via an annual work programme endorsed by the Committee. The analysis has been derived from the reports and presentations set before the Committee in the period. **Appendix B** cross references the essential elements of the annual work programme to the Committee's terms of reference.

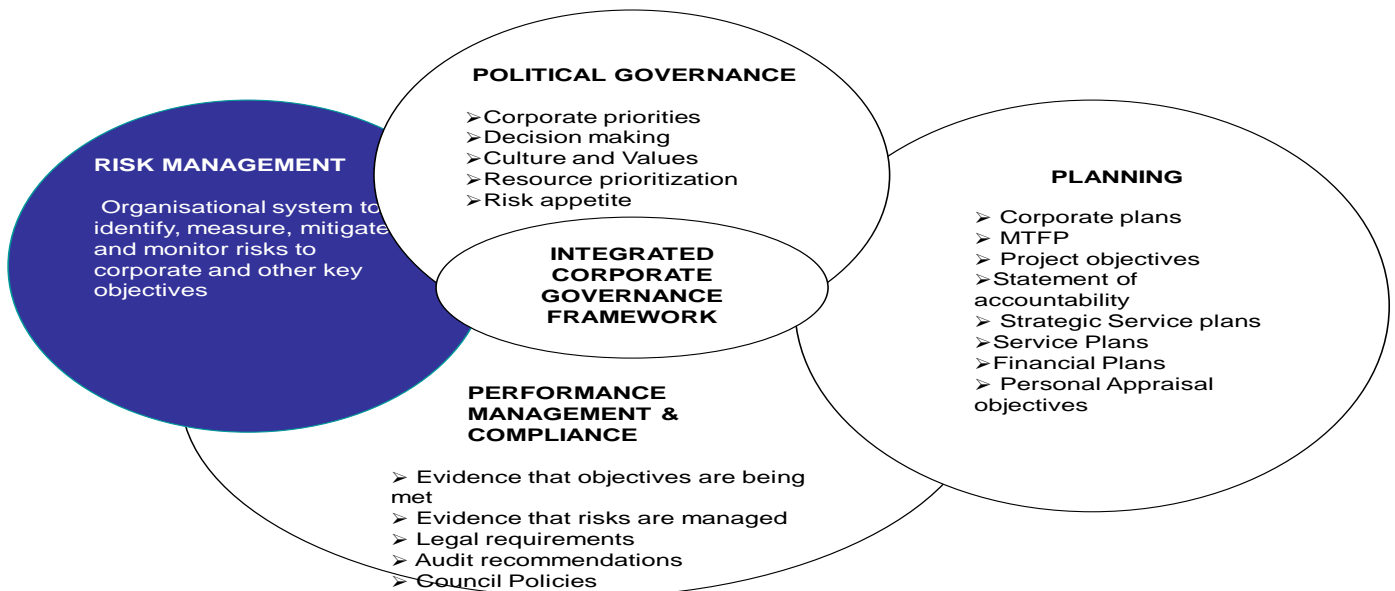
A. Risk Management

Rationale

The role and remit of the Committee was defined when it was established in 2008. The Committee's key risk management role is to provide assurance on the adequacy of the Council's Risk Management Framework (RMF) and the associated control environment by reviewing the mechanisms for assessing and managing risk. The role places the Committee at the centre of the Council's implementation of the RMF and associated policies and practices.

Summary of Work

Risk Management is an essential part of the Council's governance framework, the main elements of which are summarised below. The following illustration shows the interdependence of the key governance elements and how they sit together with risk management.



RISK MANAGEMENT FRAMEWORK

The Committee has responsibility for approving the RMF which provides policy and detailed practical guidance on the Council's risk management approach. The Strategic Risk Strategy provides practical guidance on the management of the Strategic Risk Register (SRR) and the

risks within it, including escalation/ delegation of risks, reporting arrangements, responsibilities. Risk Strategies accompany Risk Registers maintaining a rigorous Risk and Opportunity Management approach while enabling flexibility in how risks are managed at different levels of the organisation. This approach reflects departmental priorities, ways of working and activities whilst complying with the requirements of higher level risk strategies. During the year the Committee approved a review of the current policy, strategy and process for the delivery of strategic risk management to ensure that City Council Risk Management is fit for purpose and can achieve the required objectives.

The Following Diagram Illustrates the interrelationship of the Council’s Risk Registers



B. Performance Management

Rationale

The Committee receives periodic reports in respect of how the Council’s Performance Management Framework (PMF) is being implemented across the Council, which guides its management of non-financial, strategic and operational performance. This gives the Committee an insight into how strategic and operational performance is being managed and how the use of the PMF affects the Council’s exposure to risk and weakens the control environment.

The Council Plan stresses the importance of having effective performance management in place which effectively measure and report success in delivering its key priorities. It is also enshrined in The Nottingham Plan to 2020 which forms the key overarching strategic plan for the public service agencies to deliver the priorities for the city by 2020.

Summary of Work

The Committee approved the Council’s approach to Risk Management, which includes the following key points:-

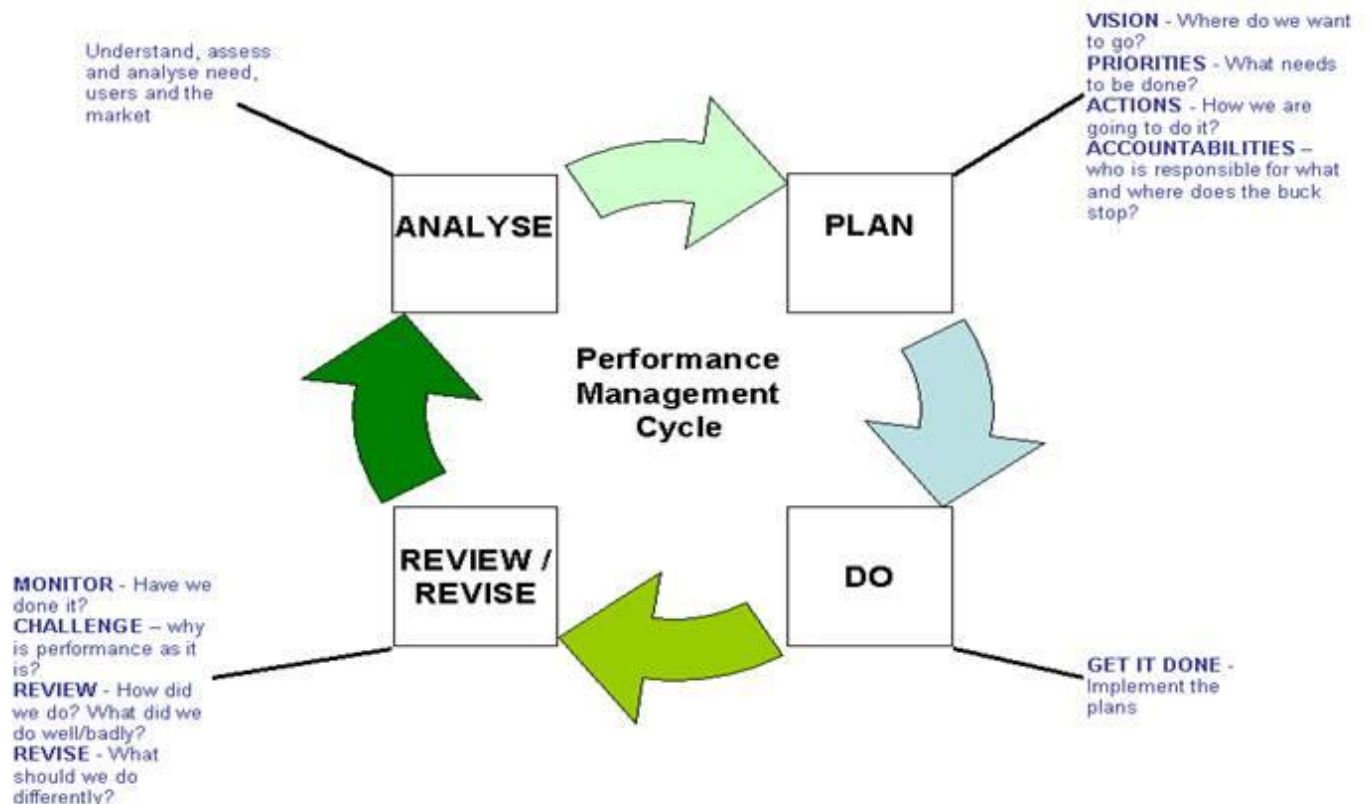
- The Council Plan has 10 key themes led by an Executive Councillor. Each theme has defined deliverables. There will be quarterly reporting to Corporate Leadership Team, Portfolio Holders and Executive Panel, and annual reporting to Executive Board and Audit Committee;
- In addition, there are four new equality objectives that cover all themes, as follows:
 - make sure that the Council’s 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;
- Performance monitoring aligns with the council’s Performance Management Framework, as well as transformation programmes such as the Good to Great programme.

The PMF:

- Sets out the principles of our performance culture and how this can be sustained
- Applies to all levels of council activity
- Defines the roles, responsibilities and reporting arrangements for all involved
- Has a broad scope, which includes strategic business planning, risk management, workforce planning, performance appraisal (which has also been substantially refreshed) and performance monitoring and management at team, service, departmental and organisational levels
- Has wider links to the Council’s Transformation Portfolio.

As the diagram below shows it is based on the Analyse – Plan – Do – Review/Revise cycle widely adopted as a good business planning/management process, and mirrors the approach taken by our commission activity:

PMF



C. External Audit

Rationale

The Committee also has a duty to 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, and to oversee the financial reporting process. It also has further responsibilities to approve the Council's Statement of Accounts (SOA) and to consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

External audit is an essential element of governance, which gives an independent view of the stewardship and accountability roles of the Council. The duties and powers of the external auditor are set out in statute and in the Audit Commission's statutory code of practice. The Council's external auditor changed in the year, the service being provided by the Audit Commission until November 2012 when it was taken over by KPMG.

Summary of work

Throughout the year the Committee received reports from the Council's external auditors, detailing their work plans and the progress they had made. The audit plan followed the approach of previous years and key audit risks were discussed. This has allowed the Committee to obtain an independent assurance in respect of the overall governance arrangements set in place by the Council, including assurance that NCC grant related processes were similar to other local authorities and that their recommendations were addressed appropriately.

D. Internal Audit

Rationale

One of the Committee's key roles is to review and monitor the work of Internal Audit (IA). The Audit Charter sets out the terms of reference of the service and is one of the benchmarks against which the Committee can measure performance and effectiveness of the service.

The Accounts and Audit Regulations 2015 state that local authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards (PSIAS) require the responsibility for the management of Internal Audit to be set with the Board. In practical terms this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City council.

Summary of work

The service impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes and is an important part of the Council's governance and control framework. During its deliberations the Audit Committee discussed the extent and quality of service being provided against alternative service delivery models and concluded that it was satisfied with the current arrangements. In summary:-

- The IA service has operated within professional standards as laid down in the PSIAS.
- The Audit Charter is the embodiment of the terms of reference for the service defining the objectives and responsibilities of the service.
- From the assurance given by the HoIA and assurances gathered from other independent sources, the Committee gained reasonable assurance that the internal control system was operating effectively within the Council and its associated partners.

The Committee gained further assurance from its consideration of detailed reports including:-

- Internal Audit Annual Work Plans and Internal Audit Charter 2014. The Committee endorsed the plans based on a risk assessment model, identifying high, medium and low risks. The Public Sector Internal Audit Standards (PSIAS) require the production of a Charter which defines the purpose, authority and responsibility of the IA function. The Charter is a key document detailing the scope and methods underpinning the work of Internal Audit and specifically defines the independence of the service and the professional standards expected from it.
- Internal Audit Quarterly Reports. Further to planned work of IA referred to above, the Committee received quarterly progress reports, plan updates and the performance of Internal Audit analysing outturn against plan and key performance indicators, and summarising the assurance to be taken from the work concluded. The Committee chose a sample of work for further scrutiny at its future meetings to test the robustness of the work and to help understand the Council's internal control environment.
- Internal Audit Annual Report. The PSIAS also require the HoIA to deliver an annual audit opinion which can be used to inform the Annual Governance Statement. The Head of Audit and Risk informed the Committee that a reasonable level of assurance could be given that internal control systems are operating effectively. The HoIA's annual opinion regarding East Midlands Shared Services was noted as part of the Committee's deliberations regarding the organisation's annual report
- Counter Fraud Strategy (CFS). 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. The CFS is the cornerstone of the Council's governance policies and 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. The Head of Audit and Risk has also developed a similar strategy for schools to be promoted for adoption by school governing bodies which addresses the relevant parts of The Department of Education Schools Financial Value Standard.

E. Other Work

The Audit Committee Work Programme (**Appendix B**) reflects the many subject areas and sources of information that the Committee considers in its deliberations about Corporate Governance. The information assimilated allows members of the Committee to understand governance issues and determine their opinion about the overall state of corporate governance in the Council.

E1. Annual Governance Statement - AGS

Rationale

Included in this Committee's terms of reference is the core function that it should be "satisfied that the Authority's assurance statements, including the AGS, properly reflect the risk environment and any actions required to improve it."

The publication of an AGS is required by the Accounts and Audit Regulations 2015. The Council is required to conduct a review, at least annually, of the effectiveness of its internal control and prepare an AGS. In order to produce the AGS an annual timetable is required to ensure key tasks are undertaken to deliver the Statement alongside the Council's SOA. In accordance with the requirements of the Accounts and Audit Regulations 2015 the Committee has delegated authority for the formal approval of the AGS, which it did at its September 2015 meeting. It was signed by the Leader of the Council, the Chief Executive and the Deputy Chief Executive and was published alongside the SOA.

The 2007 CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" provides the principles by which good governance should be measured. This has been adopted as the Council's Local Code of Corporate Governance by the Executive Board.

The Council's governance arrangements aim to ensure that it sets and meets its objectives and responsibilities in a timely, open, inclusive and honest manner. The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.

Summary of work

The AGS reflects the governance framework operating within the Council and its significant partnerships, groups and trusts. The issues identified in the AGS and the consequent plans for their mitigation are used to direct corporate resources, including those of IA.

The Committee approved the AGS 2014/15, which identified no new significant items of concern. The Committee periodically received reports on the progress made to date in addressing the issues reported in the 2014/15 Statement, and the process and timetable for compiling the 2015/16 statement. In summary the Committee was assured that progress was being made across the areas reported.

E2. Statement of Accounts (SOA)

Rationale

The SOA is an annual publication that shows how the Council's resources have been utilised, it must be prepared in accordance with all legislative requirements and professional best practice, and approved by the Council within a defined timescale. The Committee's terms of reference include a duty to review and approve the Council's SOA on behalf of the Council.

Summary of Work

The Committee received reports on the Capital Programme and reviewed and agreed the accounting policies on which the annual accounts were prepared. The 2014/15 SOA and Annual Governance Report were received by the Committee. The Committee received and approved the SOA and noted the issues noted in the associated Annual Audit Letter

E3. Local Government Ombudsman – Annual Review

Rationale

Each year all local authorities are provided with a letter from the Ombudsman and a report covering their performance with regard to dealing with complaints.

Complaints need to be used to influence service improvement and therefore to increase customer satisfaction and highlight areas where controls may be failing.

The Council is still the responsible body for complaints about housing provided by Nottingham City Homes and their figures are included in its Annual Letter.

Summary of work

The letter from the Ombudsman was positive noting in particular that of the 110 complaints received, only 6 had been upheld, and that the reduction in complaints can partially be attributed to improvements in ensuring staff are aware of operating processes and that policies are clear and transparent.

E4. Treasury Management

Rationale

Treasury management is the management of an organisation's borrowings and investments, the effective management of the associated risks and the pursuit of optimum performance or return consistent with those risks.

The Council's treasury management function operates in accordance with the Code of Practice for Treasury Management in the Public Services (the TM Code), issued by the CIPFA. Under this code the annual Treasury Management Strategy, including the Investment Strategy, is considered and approved by a meeting of Full Council before the beginning of the financial year to which it applies.

The TM Code requires authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. In undertaking this function, the Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices, and to deliver this in advance of the associated strategies being formally approved by Council. This provides an opportunity for detailed scrutiny and analysis of the Treasury Management Strategy and Investment Strategy by those charged with governance.

Summary of Work

The Committee scrutinised and gained assurance from the regular reports it received in the period regarding City Council's Treasury Management Strategy and performance reports

including the Treasury Management Annual Report. The Committee reviewed the 2013/14 Treasury Management Annual Report and noted Issues including:-

- Treasury Management actions taken in 2014/15 and 2015/16
- Noting the 2016/2017 Treasury Management Strategy, particularly the:-
 - strategy for debt repayment (Minimum Revenue Provision) in 2016/17;
 - investment strategy for 2016/17;
 - prudential indicators and limits for 2015/16 to 2018/19;
 - current Treasury Management Policy Statement

E5. Role of the Audit Committee and Annual Work Programme

Rationale

An Audit Committee is central to the provision of effective corporate governance. It is important that local authorities have independent assurance about the mechanisms underpinning their governance arrangements. It recognised that high performing councils develop effective financial and non-financial control mechanisms through the ongoing liaison and development of expertise made available by the establishment of an Audit Committee, meeting on a regular cycle, with Terms of Reference focussed on the key audit control and risk management areas critical to the Council's performance. The work of the Committee supports the Council's aim to improve its efficiency and effectiveness. In common with the requirement for Overview & Scrutiny Committees/Panels, and in accordance with CIPFA guidance, the Committee is politically balanced and does not have Executive membership.

Summary of work

The Committee has periodically considered and endorsed periodic reports detailing its work programme. This work aims to improve the Committee's efficiency and effectiveness and ensure it addresses its terms of reference as approved by the City Council. Coverage as contained in the programme is essential for the Committee to gain assurance regarding governance on behalf of the Council. In order to demonstrate the effectiveness of the Committee and develop public trust, the Chair produces an annual report in respect of its activities.

E6. Partnership Governance Arrangements

Rationale

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.

Summary of work

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. In 2015/16 the Committee approved the inclusion of three partnerships and the removal of six partnerships from the Register. Furthermore, the Partnership Governance Framework includes an annual 'health check' of each partnership included on the Register which is

designed to identify risks to the Council from its involvement in any of the partnerships. In 2015/16 the health checks found that the majority of partnerships scored either good or excellent in all areas.

E7. Audit Committee Annual Report

Rationale

The 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.

An effective Audit Committee helps to raise the profile and effectiveness of internal control, risk management and financial reporting within the Council. The Committee should enhance public trust and confidence in the governance of the Council.

In order to demonstrate the effectiveness of the Committee and develop public trust, an annual report was produced in respect of the Committee's activities. It was aimed to demonstrate the Council's commitment to improving corporate governance.

Summary of work

The last annual report outlined the work undertaken by the Committee and how that related to its core responsibilities to demonstrate how the committee had fulfilled its designated role and contributed to the Council's governance framework.

E10 Information Technology (IT)

Rationale

The City Council is reliant on the various forms of IT to perform its everyday business, whether this be collecting income, recording financial transactions, producing committee reports or keeping case notes of vulnerable citizens in order that they receive the appropriate level of care. Consequently the City Council must have an appropriate infrastructure to provide the appropriate service and to maintain controls which ensure that citizen and colleague data is properly protected at all times.

Summary of work

The IT Service Support Manager gave a presentation on progress against the recommendations of a review of the Council's IT services. The Committee noted the findings of the review and the associated actions planned by the IT Support Manager. The Committee also noted measures put in place to review and reinforce the resilience of city council IT systems

Appendix A

The Committee's Terms of Reference 2015/2016

TITLE	AUDIT COMMITTEE
POWERS / REMIT	
<p>(a) <u>Main Purposes:</u></p> <ol style="list-style-type: none"> 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. <p>(b) <u>Main Functions:</u></p> <ol style="list-style-type: none"> 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 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.	

Appendix B

Summary of Category of Work Undertaken Cross referenced to the Committee's terms of reference by main purpose and function

Topics *	Cross reference to Appendix A TOR	Cross reference to Appendix A Function
Audit Committee Training	1 - 6	1- 11
Review of Accounting Policies	3,4	2
Internal Audit Annual Work Plan	1	4
Annual Governance Statement and Updates	2,4	3,6
Statement of Accounts	4	2
Internal Audit Annual Report	1	4
Internal Audit Charter	1	4
Annual Audit Letter	3,4	6
Ombudsman Annual Letter	2	10
Partnership Governance Health Checks and Update to Register Of Significant Partnerships	1	11
Strategic Risk Management Improvement and Updates	1	1
Counter Fraud Strategy	6	8
External Audit Plan, Progress and Technical Updates	5	6,9
Performance Management Framework	2	7
Treasury Management Strategy, Annual Report, and Half Yearly Update	2	2,8
Internal Audits selected for examination	1	4
Reviews/ Updates :- IT Review, IT Resilience, Council Tax Discounts, Capital Programme	2,6	9,10
EMSS Annual Report	2	11
Internal Audit Quarterly Reports	1	4
Audit Committee Terms of Reference and Annual Work Plan and Updates	1 - 6	1 - 11
Audit Committee Annual Report	1 - 6	1- 11

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AUDIT COMMITTEE – 01 JULY 2016

Title of paper:	TREASURY MANAGEMENT 2015/16 ANNUAL REPORT	
Director(s)/ Corporate Director(s):	Glen O’Connell, Corporate Director of Resilience	Wards affected: ALL
Report author(s) and contact details:	Glyn Daykin, Finance Analyst, Treasury Management 0115 8763724 glyn.daykin@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Members of Treasury Management Panel	
Recommendation(s):		
1	To consider and comment on the Treasury Management 2015/16 Annual report, shown at Appendix A.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 The CIPFA Prudential Code requires local authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. It is considered that the City Council’s Audit Committee is the most appropriate body for this function.
- 1.2 In undertaking this function, the Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices.

2 BACKGROUND

- 2.1 Treasury management is the management of an organisation’s borrowings and investments, the effective management of the associated risks and the pursuit of optimum performance or return consistent with those risks.
- 2.2 The treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the City Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice. Under the latter Code, an annual report is required to be submitted to and considered by councillors.

3 TREASURY MANAGEMENT ACTIVITY IN 2015/16**3.1 Economic background****- Growth and Inflation:**

The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil and remains well below the Bank of England’s 2% inflation target.

- Labour Market:

The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Mar 2016) showing the employment rate at 74.2% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of

5.1%. Wage growth has however remained modest at around 2.1% excluding bonuses.

- Global influences:

The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU.

Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

- UK Monetary Policy:

The Bank of England's Monetary Policy Committee (MPC) maintained interest rates at 0.5% and asset purchases (QE) at £375bn. The MPC Committee's stance is that any future increases in the Bank Rate would be gradual and limited, and below average historical levels.

- Market reaction:

From June 2015 gilt yields were driven lower by the weakening Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and the acceptance of diminishing effectiveness of central bankers' unconventional policy actions.

3.2 Local Context

At 31/03/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,195.9m.

At 31/03/2016, the Authority had £926.7m of borrowing including £234.1m of Private Finance Initiative (PFI) Debt and £80.4m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of £30m.

The Authority has an increasing CFR over the next 3 years due to the capital programme, investments are forecast to fall and further new long term borrowing is expected to be required.

3.3 Borrowing

Total outstanding debt in 2015/16 increased by £2.4m to £690.4m as at 31 March 2016. The total long term debt decreased by £15.3m while temporary borrowing had increased by £17.7m as at 31 March 2016. The average rate of interest on total debt decreased slightly, from 3.866% at 31 March 2015 to 3.791% at 31 March 2016. The majority of long-term borrowing is raised from the Government's Public Works Loan Board (PWLb). Table 2 analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO				
	1 APR 2015		31 MAR 2016	
DEBT	£m	%	£m	%
PWLB borrowing	635.0	3.847	619.9	3.860
Market loans	49.0	4.348	49.0	4.348
Local bonds & Stock	0.8	2.665	0.6	3.001
Temporary borrowing	3.2	0.471	20.9	0.486
TOTAL DEBT	688.0	3.866	690.4	3.791

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use temporary borrowing and internal resources than to take any new long term borrowing in 2015/16.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this 'cost of carry' and breakeven analysis.

- LOBOs

The Authority holds £49m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £34m of these LOBOS had options during the year, none of which were exercised by the lender.

- Local Government Association Bond Agency

The UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Authority has analysed the potential rewards and risks of borrowing from the MBA although is yet to approve and sign the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee

- Debt Rescheduling:

The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

- Housing Revenue Account (HRA) Borrowing

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. During 2014/15 the HRA fixed £37.161m of internal

borrowing on a maturity loan basis for 30 years with reference to the PWLB interest rate quoted on the day. No further HRA borrowing has taken place in 2015/16.

3.4 Investments

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

The average sum formally invested during the year was £146.5m, earning total interest of £0.993m at an average rate of 0.678%. The effect of the continued low short-term interest rates (see table 4 in appendix 3), meant that the average return for 2015/16 was slightly below the original budget estimate of 0.680%. The Council benchmarks its average return against the 7-day London Interbank (LIBID) rate provided by the Bank of England. For 2015/16, the average 7-day LIBID rate was 0.45%.

Table 3 below shows the movement in investments by type during 2015/16.

Table 3	Balance on 01/04/2015 £m	Balance on 31/03/2016 £m
Short term Investments (call accounts, deposits)		
- Banks and Building Societies with ratings of A- or higher	90.0	25.0
- Local Authorities	45.0	10.0
Long term Investments		
- Local Authorities	10.0	-
Money Market/ Funds	47.2	35.4
Pooled Funds		
- 'Cash Plus' Funds	-	10.0
TOTAL INVESTMENTS *	192.2	80.4
Increase/ (Decrease) in Investments £m		(111.8)

Note: * excludes remaining balance held in Icelandic ISK Escrow account

The council reduced its overall exposure to investment credit risk by reducing the balance of investments held. This cash allowed borrowing to be delayed so internal resources could be used for the short term financing of capital expenditure. The council has retained its use of instant access money market funds to manage its liquidity requirements of day-to-day cash flow fluctuations as well as the dual benefit of increased diversity and a credit rating of AAAm.

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating was BBB+ 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.

The authority has also considered the use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

- Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2015	3.95	AA-	3.34	AA
30/06/2015	3.91	AA-	2.83	AA
30/09/2015	3.34	AA	2.87	AA
31/12/2015	3.48	AA	3.55	AA-
31/03/2016	4.26	AA-	3.48	AA

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

- D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Appendix 2 provides details of the Council's external investments at 31 March 2016, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.

- Icelandic Krona (ISK) in Escrow

The administrators for the recovery of Glitnir Bank deposits (£11m) have made repayment to all priority creditors, including the City Council, in full settlement of the accepted claims. However, approximately 21% (£2.3m) 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.

Accounting regulations require notional accrued interest in respect of the outstanding principal sums to be credited to the revenue account each year, together with any changes in the value due to the ISK exchange rate changes, until the recovery process is complete.

The accrued notional interest and changes in value due to exchange rate movements in respect of the Icelandic recoveries held in ISK escrow account produced a debit to the revenue account of £0.440m in 2015/16 which was neutralised by a transfer from the Treasury Management Reserve.

The administrators of Heritable bank paid a 15th dividend of £0.635m which was in addition to the previously published final expected settlement position.

3.5 Counterparty update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

With the end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The council favoured reducing its exposure by having less cash to investment, but then has looked to secured investment options or diversified alternatives such as non-bank investments and pooled funds to reduce the use of unsecured bank and building society deposits.

3.6 Externally Managed Funds

The Authority also has investments in the Royal London cash plus fund which allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

Although money can be redeemed from the pooled funds at short notice, the council's intention is to hold them for the medium-term. Their performance and suitability in meeting the Authority's investment objectives are monitored regularly and discussed with Arlingclose.

3.7 External advisors

External advisors (Arlingclose) are retained to provide additional input on treasury management matters. The service comprises economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other matters, as required.

3.8 Prudential Indicators

Following the Local Government Act 2003, the Council is required to approve a series of treasury management prudential indicators. These were approved on 9 March 2015 by Council as part of the 2015/16 Treasury Management Strategy.

In compliance with the requirements of the CIPFA Code of Practice this report provides a summary of the treasury management activity during 2015/16. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. **Appendix 1** shows actual performance against these indicators for 2015/16 together with comparative figures for 2014/15.

The prudence indicators reflect the management of the capital programme and associated debt, within existing resource limitations. The affordability and treasury

management indicators, indicate whether the 2015/16 actual figures were within the set limits.

The 'PFI and leasing debt' figures within the indicators reflect the notional debt element of those schemes financed through PFI funding or finance leases.

The Council also confirms that during 2015/16 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

3.9 General Fund Revenue Implications

Revenue costs associated with borrowing and lending can be volatile, being affected by a number of factors including movements in interest rates, the timing of capital spending, the extent of reserves held and actual cash flows during the year.

The latest budget estimate in 2015/16 for treasury management costs was £66.537m. The total treasury management-related costs in 2015/16, comprising interest charges less receipts, plus provisions for repayment of debt, were £67.618m. Of this PFI related expenditure accounted for £22.1m mostly due to NET line 2 becoming operational in 2015/16. A proportion of the Council's debt relates to capital expenditure on council housing and £12.326m of these costs was charged to the HRA. The remaining General Fund costs of £65.537m gave a favourable variance of £1.0m which is included within the treasury management section of the General Fund corporate budget outturn report on the 28 June 2016 Executive Board agenda.

The prime reason for the favourable variance is slippage in the capital program which has resulted in a £1m saving across interest payable on new long term debt and a reduction in the repayment of debt referred to as minimum revenue provision (MRP). These savings are one-off in nature as the proposed capital program expenditure materialises in future years.

3.10 Treasury Management Reserve

The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year. The balance on the Reserve at 31 March 2016 is £14.926m.

3.11 Value for Money

Management of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

3.12 Risk Management

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 maintained for the treasury function.

The key Strategic Risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The rating for this risk at 31 March 2016 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 1 April 2015.

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

4.1 None

5 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

5.1 CIPFA statistics. Bloomberg sourced Money Market rates and PWLB loan rates 2015/16 shown in appendix 3.

PRUDENTIAL INDICATORS

Appendix 1

INDICATORS	2014/15 Actual	2015/16 Estimate	2015/16 Actual	Within Limits?
1) Prudence indicators				
i) Capital Expenditure				
General Fund	£123.5m	£207.3m	£201.2m	
HRA	£60.0m	£67.0m	£51.0m	
	£183.5m	£274.3m	£252.2m	
ii) CFR at 31 March				
General Fund	£576.2m	£664.3m	£679.0m	
HRA	£281.3m	£289.3m	£280.8m	
PFI notional 'debt'	£103.2m	£239.5m	£236.2m	
	£960.7m	£1,193.1m	£1,195.9m	
iii) External Debt at 31 March				
Borrowing	£688.0m	£671.0m	£690.4m	
PFI & leasing notional 'debt'	£103.2m	£239.5m	£236.3m	
Gross debt	£791.2m	£910.5m	£926.7m	YES
Less investments	£(213.8)m	£(50.0)m	£(82.7)m	
Net Debt	£576.8m	£860.5m	£844.0m	
2) Affordability indicators				
i) Financing costs ratio				
General Fund	13.32%	13.92%	13.44%	
General Fund (Inc PFI costs)	17.01%		20.28%	
HRA	11.14%	12.31%	11.33%	
		£s	£s	
Council Tax Band D (per annum)	-	1.38	1.30	
HRA rent (per week)	-	-	-	
	Max in year		Max in year	
iii) Authorised limit for external debt	£803.9m	£1091.6m	£926.7m	YES
iv) Operational limit for ext. debt	£803.9m	£1041.6m	£926.7m	YES
3) Treasury Management indicators	@ 31/3/15	%	@ 31/3/16	
ii) Limit on variable interest rates	7.89%	0-50%	7.86%	YES
iii) Limit on fixed interest rates	92.11%	50-100%	92.14%	YES
iv) Fixed Debt maturity structure				
- Under 12 months	2.68%	0-25%	5.27%	YES
- 12 months to 2 years	2.25%	0-25%	2.30%	YES
- 2 to 5 years	15.01%	0-25%	16.33%	YES
- 5 to 10 years	17.79%	0-25%	16.65%	YES
- 10 to 25 years	31.84%	0-50%	29.13%	YES
- 25 to 40 years	21.16%	0-25%	22.61%	YES
- 40 years and above	9.27%	0-75%	7.71%	YES
	Max in year		Max in year	
v) Max sum invested for >364 days	£15.0m	£50.0m	£10.0m	YES

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

1) Prudence Indicators

- i) *'Estimate of total capital expenditure'* – a “reasonable” estimate of total capital expenditure to be incurred, split between the General Fund and the HRA.
 - This estimate takes into account the current approved asset management and capital investment strategies.
- ii) *'Capital financing requirement' (CFR)* – this figure constitutes the aggregate amount of capital spending which has not yet been financed by capital receipts, capital grants or contributions from revenue, and represents the underlying need to borrow money long-term. An actual figure at 31 March each year is required.
 - This approximates to the previous Credit Ceiling calculation and provides an indication of the total long-term debt requirement.
 - The figure includes an estimation of the total debt brought 'on-balance sheet' in respect of PFI schemes and finance leases.
- iii) *'External debt'* - the actual level of gross borrowing (plus other long-term liabilities, including the notional debt relating to on-balance sheet PFI schemes and leases) calculated from the balance sheet.

2) Affordability Indicators

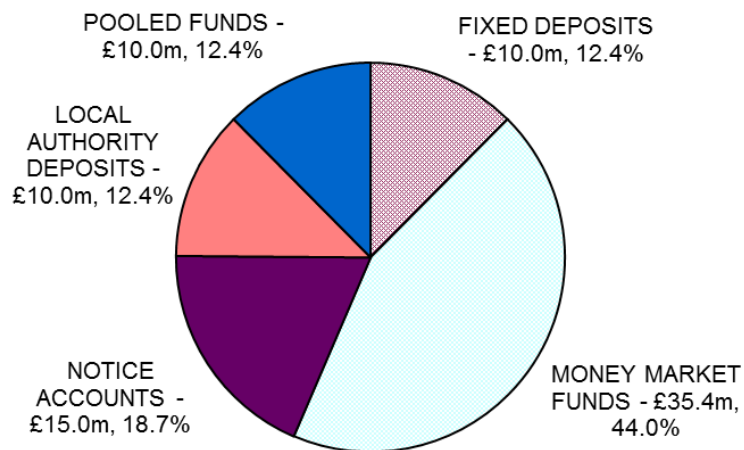
- i) *'Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes revenue raised from the Workplace Parking Levy.
 - These indicators show the impact of borrowing on the revenue accounts and enable a comparison between years to be made. The increase in the General Fund ratio reflects the falling grant from government and the impact of the extension of the NET capital scheme, funded from specific Government grant and the Workplace Parking Levy income streams.
- ii) *'Incremental impact of capital investment decisions'* – expresses the revenue consequences of future capital spending plans to be met from unsupported borrowing and not financed from existing budget provision, on both the level of council tax and weekly housing rents.
 - This is a key indicator, which provides a direct link between the capital programme and revenue budget and enables the revenue impact of additional unsupported capital investment to be understood.
- iii) *'Authorised limit for external debt'* – this represents the maximum amount that may be borrowed at any point during the year.
 - This figure allows for the possibility that borrowing for capital purposes may be undertaken early in the year, with a further sum to reflect any temporary borrowing as a result of adverse cash flow. This represents a 'worst case' scenario.

- iv) *'Operating boundary for external debt'* – this indicator is a working limit and represents the highest level of borrowing is expected to be reached at any time during the year - It is recognised that this operational boundary may be breached in exceptional circumstances.
- v) *'HRA limit on indebtedness'* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The CLG have imposed a 'cap' on the maximum level of debt for individual authorities and the difference between this limit and the actual HRA CFR represents the headroom available for future new borrowing.

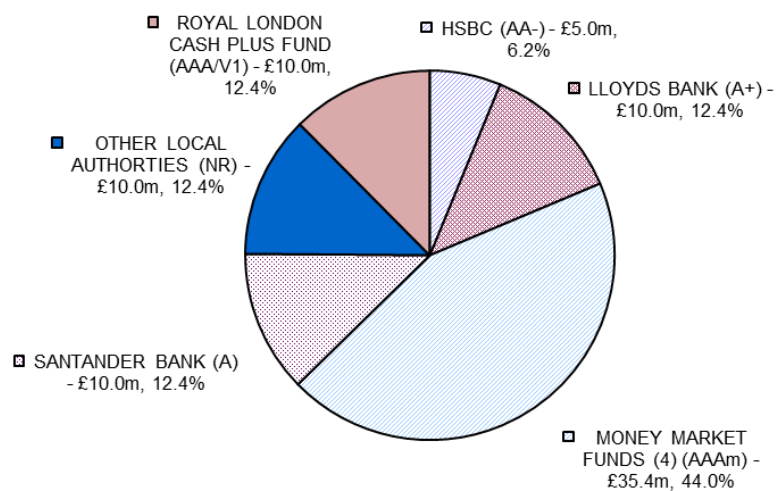
3) **Treasury Management Indicators**

- i) *'The amount of net borrowing which is at a variable rate of interest'* - expressed as a percentage. Upper and lower limits for the financial year are required.
 - A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.
- ii) *'The amount of net borrowing which is at fixed rate of interest'* - expressed either as an absolute amount or a percentage. Upper and lower limits are required.
 - Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates. The lower limit is effectively the counterpart to the upper limit for variable rate borrowing.
- iii) *'Upper and lower limits with respect to the maturity structure of the authority's borrowing'* – this shows the amount of fixed rate borrowing maturing in each period, expressed as a percentage of total fixed rate borrowing.
 - This indicator is designed to be a control over having large amounts of fixed rate debt falling to be replaced at the same time.
- iv) *'Total sums invested for periods of greater than 364 days'* – a limit on investments for periods longer than 1 year.
 - This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods.
- v) *'The adoption of the CIPFA Code of Practice for Treasury Management in the Public Services'*. This is not a numerical indicator, but a statement of good practice.
 - The Council adopted the Code on 18 February 2002. Revised Codes, issued in 2009 and 2011, have subsequently been incorporated within the Council's strategy and procedures.
- vi) *Credit risk* – The Council monitors a range of factors to manage credit risk, detailed in its annual Treasury Management Strategy (section 7).

Type of Investments as at 31 March 2016



Investment and Fitch credit long-term rating as at 31 March 2016



Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

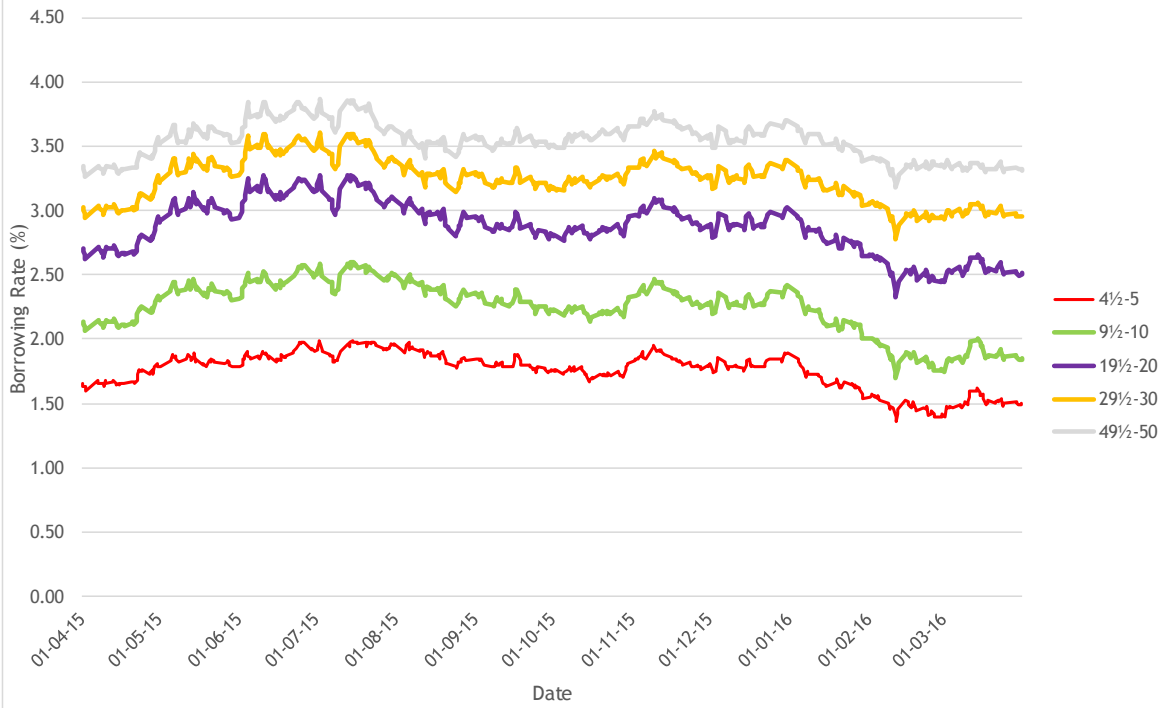
Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015	0.50	0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015	0.50	0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015	0.50	0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015	0.50	0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015	0.50	0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015	0.50	0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015	0.50	0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015	0.50	0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015	0.50	0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015	0.50	0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016	0.50	0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016	0.50	0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016	0.50	0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average	0.50	0.38	0.45	0.43	0.54	0.76	0.99	0.96	1.14	1.43

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
Average		1.76	2.25	2.88	3.24	3.47	3.55

Standard New Borrowing Rates on PWLB Fixed EIP Loans in 2015/16



AUDIT COMMITTEE – 1 July 2016

Title of paper:	Update on the Review and Improvement of the Delivery of Strategic Risk Management	
Director(s)/ Corporate Director(s):	Report of the Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Jane O'Leary Insurance and Risk Manager 0115 8764158 Jane.oleary@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To provide a progress report on the Review and Improvement of the delivery of Strategic Risk Management project.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 The project to review and refresh the existing risk management process has been approved by CLT and Audit Committee. The review of the existing process has been completed. The report sets out the findings of the benchmarking exercise which will inform the 2016/2017 Strategy.

2 BACKGROUND

- 2.1 A report and recommendation was agreed at Audit Committee on the 27 November 2015 to undertake a root to branch review of the current risk management process with the objective of providing an improved processes that achieves a greater guarantee and assurance that the identification, assessment and mitigation of strategic risk is effective.
- 2.2 The benchmarking and risk management health check has been completed, having conducted a series of confidential meetings with senior managers and councillors. The following areas were considered in the exercise:-
- Review of policies, procedures and framework
 - Review the corporate risk register
 - Assess current risk maturity
 - Obtain view on current processes
 - Suggest areas for improvement and offer a suggested strategy/action plan
- 2.3 The Alarm National Performance Model for Risk Management in Public Services has been used as the tool to measure the maturity of risk management processes at the council. The model allows an assessment to be made around the extent to which risk management is having a positive effect on the organisation.
- 2.4 Based on the outcomes of the review and benchmarking exercise, the risk management strategy to accompany the risk management framework is being developed. It is to include objectives, milestones and implementation plan.

3 FINDINGS OF THE BENCHMARKING EXERCISE

- 3.1 The current Strategic Risk Register is being reviewed by CLT and updated to adequately reflect the current risk profile and risk appetite. CLT are reviewing all the departmental risk registers and are to agree what constitutes a corporate risk and what the escalation process is to be.
- 3.2 There is confidence that risks are being identified and understood at departmental level. With support from the risk team during 2016/2017 there will be further assurance that the framework is used robustly to support service delivery.
- 3.3 The use of Covalent as a method of recording risk is under review with alternative software under consideration.
- 3.4 There is confidence that larger projects and partnerships are managed well with risk registers.
- 3.5 Risk reporting and escalation requires more consistency and the training of departments leads and risk owners will form part of the 2016/2017 Strategy.
- 3.6 In general the scoring of the exercise showed that there was engagement in the risk management process across the council and that the Strategy will reflect the need to focus resources on improvements across
- Leadership and Management
 - Strategy and Policy
 - People
 - Partnership, Shared Risk and Resources
 - Processes
 - Risk Handling and Assurance
- 3.7 The findings of the exercise have been presented to CLT, with the future approach discussed.
- 3.8 From these discussions the Strategy for 2016/2017, Policy and Process is being re-written into one overarching document.
- 3.9 An Action Plan (for agreement with CLT) of agreed improvements and implementation is in draft.
- 3.10 In six months there should be a review of further exercises that need to be undertaken such as a review of risk appetite; risk management in contracts and business continuity audit.

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

- 4.1 None

5 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- 5.1 None

AUDIT COMMITTEE – 1 JULY 2016

Title of paper:	INTERNAL AUDIT CHARTER	
Director(s)/ Corporate Director(s):	Geoff Walker Director for Strategic Finance	Wards affected:
Report author(s) and contact details:	Shail Shah - Head of Audit and Risk 0115-8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Endorse the Internal Audit Charter at Appendix 1 .	

1 REASONS FOR RECOMMENDATIONS

- 1.1 The Internal Audit Service (IA) impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes. It is an important part of the Council's governance and control framework.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require the production of a Charter which defines the purpose, authority and responsibility of the IA function. The Charter, which should be reviewed regularly, is to be presented to the Audit Committee for endorsement. The Charter is attached at Appendix 1 and reflects the standards set in the PSIAS.

2 BACKGROUND

- 2.1 The IA service impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes. It is an important part of the Council's governance and control framework.
- 2.2 The Accounts and Audit Regulations 2015 state that local authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 2.3 The 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.
- 2.4 The Charter has a minor change to that endorsed at the June 2015 meeting of this Committee. This change results from an updated PSIAS requirement to make clear that IA's mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

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

- The Accounts and Audit Regulations 2015
- Public Sector Internal Audit Standards (Updated March 2016)
- Audit Committee 26 June 2015 - Internal Audit Charter

Nottingham City Council – Internal Audit Charter

Introduction

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

Independence

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

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

Every effort will be made to preserve the objectivity of the service by ensuring that all audit colleagues are free from any conflicts of interest and do not undertake any non-audit related duties. Registers of interest/gifts will be maintained in accord with corporate best practice.

Objectives

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. Internal Audit’s mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. To do this the service aims to provide a cost effective, independent, professional and high quality service, which supports managerial objectives by promoting the highest levels of financial management and probity across the Authority”.

In so doing the service aims to support the effectiveness of the risk management, control and governance processes within the City Council and its significant partners.

Scope

Internal Audit will review and investigate the areas of key risk to the Council’s objectives across the entire range of its activities. In order to fulfil this role the service requires unrestricted access to all the colleagues, records and assets of the Council and/or its partners. Council colleagues are required by the Head of Audit and Risk to ensure permission to access records is incorporated in formal agreements setting up partnership arrangements or other arrangements with other third parties.

In addition, the Head of Audit and Risk has unrestricted access to the Chief Executive, Councillors, Corporate Directors and all employees of the City Council and its partners.

Each audit or piece of work undertaken will have a clear scope and objectives. Any audit undertaken within the Council and its partners will be 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 will be clearly defined and the independence of auditors maintained. Internal Audit work will be co-ordinated with that of external review agencies to provide maximum audit coverage and to prevent duplication of effort where practical.

Responsibility

The main areas of Internal Audit responsibility within the Council will be to:

1. Review, appraise and report on:
 - the soundness, adequacy and application of internal controls as a contribution to the proper control of risk and the economic, efficient and effective use of resources
 - the suitability and reliability of financial and other management data, including aspects of performance measurement
 - the extent to which the assets and interests are accounted for and safeguarded from loss.
2. Aid Corporate Directors in the investigation of fraud and irregularity as prescribed in the Council's Fraud Response Plan and to develop and implement the Council's Counter Fraud Strategy.
3. Receive information on instances of fraud and corruption to inform opinion on the control environment and to help determine the resources required to manage the associated risks. Managing the risk of fraud and corruption is the responsibility of management, but the Head of Audit and Risk must be informed of any instances.
4. Advise on the internal control implications of new systems.

Audit Style and Content

The Head of Audit and Risk is required to manage the provision of a complete audit service to the Authority which includes risk based, system and ICT audits. In discharge of this duty, the Head of Audit and Risk will prepare a rolling strategic risk-based Audit Plan.

Work Planning

The Head of Audit and Risk will produce and maintain a Strategic Plan and an annual operational Audit Plan. These plans will be derived from a comprehensive risk model and after consultation with Corporate Directors. The plans will be presented annually to the Audit Committee and will aim to:

- Support the Responsible Officer in the discharge of the Section 151 duty.
- Contribute to and support the Council's objectives of providing sound financial systems and governance arrangements.
- Provide recommendations and findings designed to enhance the reliability and accuracy of the Annual Governance Statement, financial statements and other published information.

Location

Internal Audit is located within the Resources Department and based in Loxley House, but operates throughout the Council.

Standards

Internal Audit 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 Head of Audit and Risk will report any significant instances of non-conformance with these codes and standards to the Audit Committee.

The service has internal quality procedures in place and is ISO9001:2008 accredited. It has adopted the principles contained in the Public Sector Internal Audit Standards 2012 and has fulfilled the requirements of the Account and Audit Regulations 2015 and associated regulations in respect of the provision of an Internal Audit service.

Audit Resources

The Head of Audit and Risk will be a CCAB qualified Accountant who will ensure that there are adequate resources available to complete the Audit Plan including appropriate contingencies and to help deliver the opinions required. The Head of Audit and Risk will assess the available skills and competencies necessary for the audits planned and to produce annual evidence based opinion. Where a gap is identified action will be taken to procure the required resource.

Recruitment and procurement will be designed to ensure appropriate resources are put in place in a timely manner to ensure audit plans are kept to. The Head of Audit and Risk will follow the Council's corporate policies and procedures when procuring such resources.

The establishment will comprise of suitably professionally qualified colleagues including Accountants, Technicians and other specialists necessary to resource the varied demands placed upon the service.

Audit Training

The Head of Audit and Risk will use the Council's Performance Appraisal programme to assess the skills and competencies of the audit colleagues and develop appropriate Training & Development Plans to ensure audit resources are adequate to fulfil the required audit need. The Head of Audit and Risk will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training including: courses, work experience, coaching, mentoring and other relevant development opportunities.

Audit Reporting

Strategic Reporting

In accordance with the principles contained in the PSIAS:-

The responsibility for the management of Internal Audit is set with the Board. In practical terms this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and

procedures of the City council. The Section 151 Officer will give operational direction whilst reports covering strategic and assurance issues will be presented to the Audit Committee.

In fulfilling its operational responsibility to report to senior management the HoIA, whilst maintaining operational independence, will:

- Regularly meet with and update the Council's Chief Finance Officer (CFO) (S151 Officer) who is a member of the Council's Corporate Leadership Team. The CFO will continuously review the performance and effectiveness of the service.
- Normally report directly to the Council's Director of Strategic Finance. However, where actual or potential conflict of interests are present the Head of Internal Audit may choose to report to the CFO, Chief Executive, Monitoring Officer, Leader of the Council or external agency at his/her discretion.
- Present performance reports to the Audit Committee.
- Provide an annual opinion to the Audit Committee on the status of the Council's entire control environment as informed by Audit work and reference to other internal and external assurance mechanisms available.

Operational Reporting

Reports will be in accordance with PSIAS and will be distributed to those responsible for governance in the areas audited. In the course of an audit, a draft report will be sent to the manager(s) responsible for the area under review for agreement to the factual accuracy of the findings. The final report will be issued to the Corporate Director or other responsible party or their nominated representatives and copied to the appropriate managers and or service directors with an appropriate agreed action plan included.

In the event of disagreement, the Head of Audit and Risk will consult with the client managers responsible and will, if necessary, consult with the Section 151 Officer and or Chief Executive. Ultimately if agreement cannot be reached the Head of Audit and Risk may reflect the fact in the final report. Copies of all final reports and supporting working papers will be retained electronically where possible and will be in accordance with corporate policies for document retention.

The responsibility for the implementation of agreed recommendations lies with the auditee. Recommendations will be followed up at the next review at the very least or before, depending on the level of associated risk. A copy of the report will also be sent to the Head of Service, Director, Corporate Director, CFO and if necessary the Director of Strategic Finance and Corporate Director for Resources. Currently the Director of Strategic Finance is also the acting CFO and S151 Officer.

Where appropriate, recommendations will be fed into the corporate improvement programme and brought before Departmental Management Teams for action, and follow up of the recommendations.

On completion of audits a customer satisfaction survey will be undertaken to give feedback on performance and to facilitate continuous performance improvement. The results of these surveys will be included in the service's key performance indicators.

AUDIT COMMITTEE – 1 July 2016

Title of paper:	INTERIM ANNUAL GOVERNANCE STATEMENT 2015/16	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Audit and Risk Tel: 0115-8764245 Email: shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note the Interim AGS 2015/16 set out at Appendix 1 .	

1 REASONS FOR RECOMMENDATIONS

- 1.1 This report presents the Interim Annual Governance Statement (AGS). The final AGS will be published with the City Council's Statement of Accounts.

2 BACKGROUND

- 2.1 The City Council's governance arrangements aim to ensure that it sets and meets its objectives and responsibilities in a timely, open, inclusive and honest manner. The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.
- 2.2 The Accounts and Audit Regulations 2015 specify that every financial year the Council must undertake a review of the effectiveness of its internal control and prepare an AGS.
- 2.3 The Audit Committee has the delegated authority for the formal approval of the AGS in accordance with the requirements of the Accounts and Audit Regulations 2015. The AGS should be approved by the Audit Committee before it approves the Statement of Accounts on behalf of the Council
- 2.4 The 2007 CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" provides the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting on 20 May 2008.
- 2.5 In 2012 CIPFA/SOLACE produced an updated guidance note covering the delivery of good governance in local government and how an authority's arrangements can be reflected in the AGS. The City Council has incorporated this guidance in both the evaluation of its governance arrangements and in the production of its AGS.

- 2.6 It is good practice to approve as close to publication of the final Statement of Accounts as possible. The timetable for production of the AGS was approved at the February 2016 meeting of this Committee. This interim statement is a precursor to the final statement which will be brought to the September meeting of this Committee for approval alongside the Statement of Accounts
- 2.7 The AGS reflects the governance arrangements operating within the Council and its significant partners. Responsibility for its production lies with the Chief Finance Officer (CFO) / Acting Director of Strategic Finance.
- 2.8 Assurance used in compiling the final report was derived from several sources: Corporate Directors and other key colleagues including the Monitoring Officer, Section 151 Officer and the Head of Audit and Risk have reviewed the governance arrangements according to their respective responsibilities and have given assurance and commented as to its effectiveness. A similar exercise was conducted with the Council's significant partners and groups. Information obtained from independent external reviews is also used to inform this assurance.
- 2.9 In accordance with the Local Code of Corporate Governance the final AGS will be signed by the Leader of the Council, Chief Executive, and the CFO, and will contain the following information:
- an acknowledgement of responsibility for ensuring that there is a sound system of governance;
 - an indication of the level of assurance that the systems and processes that comprise the Authority's governance arrangements can provide;
 - a brief description of the key element of the governance framework, including those of significant groups or partners;
 - a brief description of the processes undertaken to maintain and review the governance arrangements, including some comment on the work undertaken by the Council, Executive Board, Committees with governance remits and Internal Audit;
 - an outline of the actions taken or proposed to deal with significant governance issues.
- 2.10 This interim statement maps the policies, procedures and initiatives the Council has put in place to address the governance issues embodied in its Local Code. Four new items of note have been included regarding Information Governance, Information Technology, Revaluation of the Housing Revenue Account and Nottingham Revenues and Benefits. The final AGS will update this statement and will introduce any further issues found in the control environment if appropriate.

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

- CIPFA/SOLACE - Delivering Good Governance in Local Government (Framework)
- CIPFA/SOLACE - Delivering Good Governance in Local Government Guidance Note - 2012
- Accounts and Audit Regulations 2015

- Executive Board 20 May 2008 – Local Code of Corporate Governance
- Audit Committee Papers February 2016 – Annual Governance Statement - Progress Made To Date On Issues Reported 2014/15 And Process For Producing 2015/16 Statement

ANNUAL GOVERNANCE STATEMENT 2015/16**Scope of responsibility**

Nottingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, this includes arrangements for the management of risk.

The Council approved and adopted a code of corporate governance consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* publication. A copy of the code is available on our website at <http://www.nottingham.gov.uk/governance>. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, which require all relevant bodies to prepare an Annual Governance Statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money

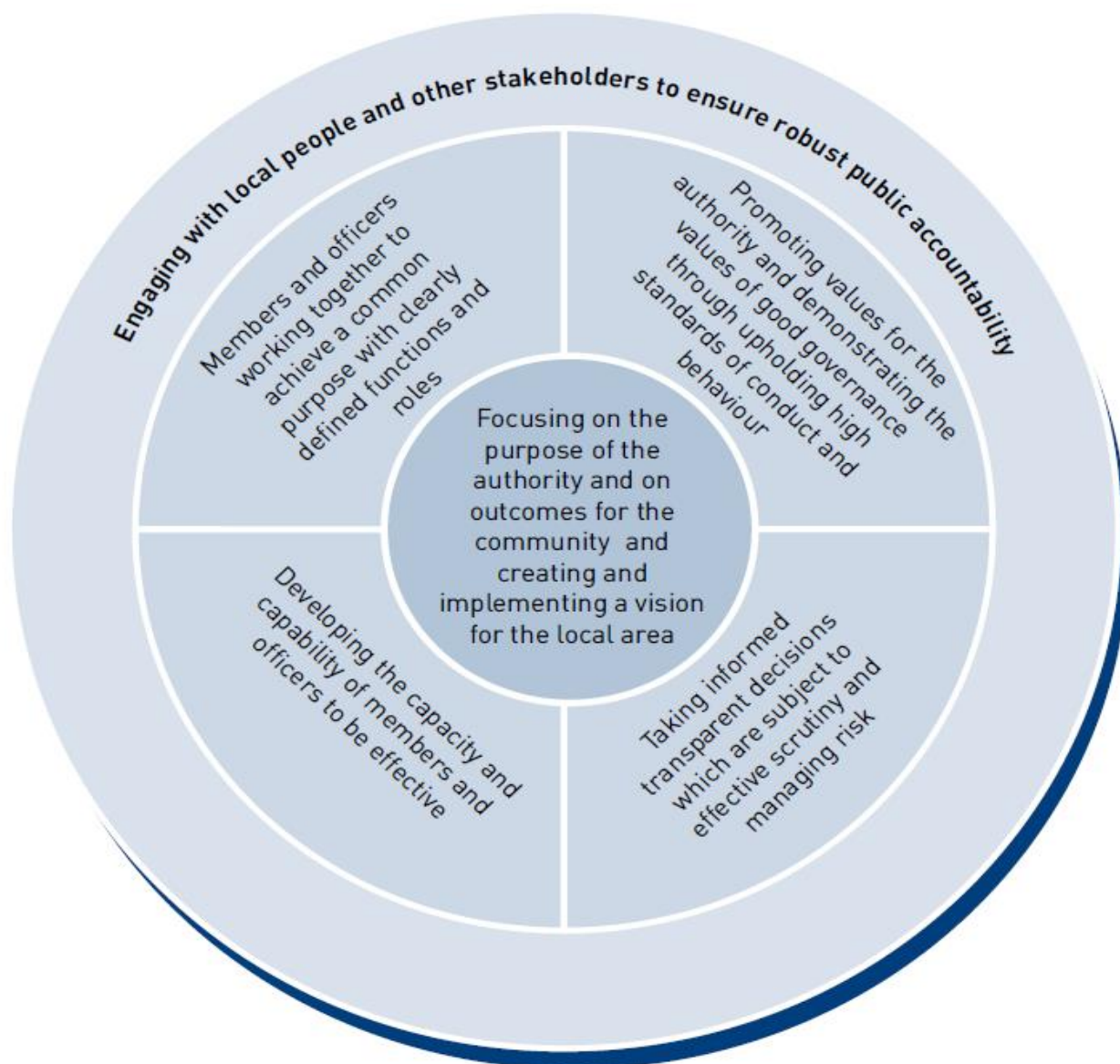
The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework was in place at the Council for the year ended 31 March 2016 and up to the date of approval of the annual report and Statement of Accounts.

The Governance Framework

The core principles of the CIPFA/SOLACE framework for delivering good governance adopted by the Council in its local framework are illustrated below. Each of these principles is underpinned by the core components described. The Council has taken reasonable assurance that the systems and processes comprising the authority's governance arrangements are operating effectively.

CIPFA/SOLACE - Principles underpinning the delivery of good governance



Arrangements for identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users

The function of governance is to ensure that the Council and its partners fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner. This concept should guide all governance activity. The Council has to develop and promote a clear vision of its purpose and intended outcomes for citizens and service users that are clearly communicated both within the Council and to external stakeholders.

The Council has accepted that knowledge and understanding of local communities and neighbourhoods is critical to delivering fit for purpose services, and improving public involvement with the work of the Council has been identified as a priority.

The Council's vision is wholly aligned with that of the City as set out in the 2030 vision and Nottingham Plan to 2020. Accordingly this vision and the associated Nottingham Plan Strategic Priorities are set and are not subject to annual review and change. The Nottingham

Plan to 2020 sets the overall strategic direction and long term vision for the economic, social and environmental wellbeing of the City of Nottingham and focuses on the following six themes (with three important cross-cutting aims of Aspiration, Green and Fairness):

- World Class Nottingham
- Neighbourhood Nottingham
- Family Nottingham
- Working Nottingham
- Safe Nottingham
- Healthy Nottingham

The latest Council Plan, approved by councillors, sets out the Council's ambitions for the city over the next four years up to 2019. This includes the following 5 key objectives for the Council to deliver:

- Ensure that every child in Nottingham is taught in a school that is judged good or outstanding by Ofsted
- Build 2,500 new homes that Nottingham people can afford to rent or buy
- Cut the number of victims of crime by a fifth and continue to reduce anti-social behaviour
- Tackle fuel poverty by setting up a not for profit energy company, to sell energy at the lowest possible price to Nottingham people
- Guarantee a job, training place or further education plan for every 18-24 year old

The Council Plan underpins the council's wider Good to Great journey, with a continued emphasis on placing citizens at heart of everything the Council does to shape its service delivery going forward. It has clear priorities with associated performance measures supported by delivery plans containing the key milestones and measures for each Plan priority. Major changes are managed by the Corporate Leadership Team on a monthly basis, including all internal transformational projects and programmes, which together ensure that the Council is well placed to lead Nottingham and optimise what it does for and on behalf of its citizens.

How the Council delivers the Council Plan objectives is captured within business plans, mirroring the lifespan of the Plan to 2019. These in turn feature in colleagues' own Performance Appraisals to detail how the work they do contributes to the delivery of the council's key priorities.

The Nottingham Plan, Council Plan and other key plans such as the Children & Young People's Plan are published as appropriate and are available to all members of the public. Regular performance reports on the progress in delivering manifesto pledges are provided for councillors to review performance. Financial statements are published annually and equally the Medium Term Financial Strategy (MTFS) is a publicly accessible document. Regular updates and reviews ensure consistency within plans and reflect national developments including the effects of reduced Government funding. Ultimately this means the Council's priorities and those of its key partners over both the short and long term, are in accord. The principles underpinning the Plan are summarised in the updated Council's 'Message Map' below, which illustrates the direction and focus for the Council.

Message Map



Arrangements for reviewing the authority’s vision and its implications for the authority’s governance arrangements

Good governance flows from a shared ethos or culture, as well as from systems and structures. Consequently it is important that clear values and objectives are set and processes implemented to assess their effectiveness. Where appropriate the review mechanism should enable problems to be identified and corrective action to be taken. Progress against the Council’s strategic priorities is monitored and reported to the Executive Board and One Nottingham Board on an annual basis.

Portfolio Holders and the Executive Board make decisions based upon colleague recommendations and in response to changing legal or financial obligations. The reports containing recommendations to be considered clearly explain the technical issues and their implications and relate the recommended action to agreed policies and strategies. Where

more than one course of action is possible the alternatives are analysed and justification given for the preferred choice.

Professional advice is taken when decisions have legal or financial implications; this is done in advance of decision making. Advice on legal and financial matters is taken from internal, and where necessary, external sources. Portfolio Holders also have a common responsibility to promote and be accountable for their services nationally and internationally as required. They also represent the Council's views on matters of corporate or strategic policy within their portfolio. The Leader of the Council also has responsibility to promote the City, the Council and its core values and objectives.

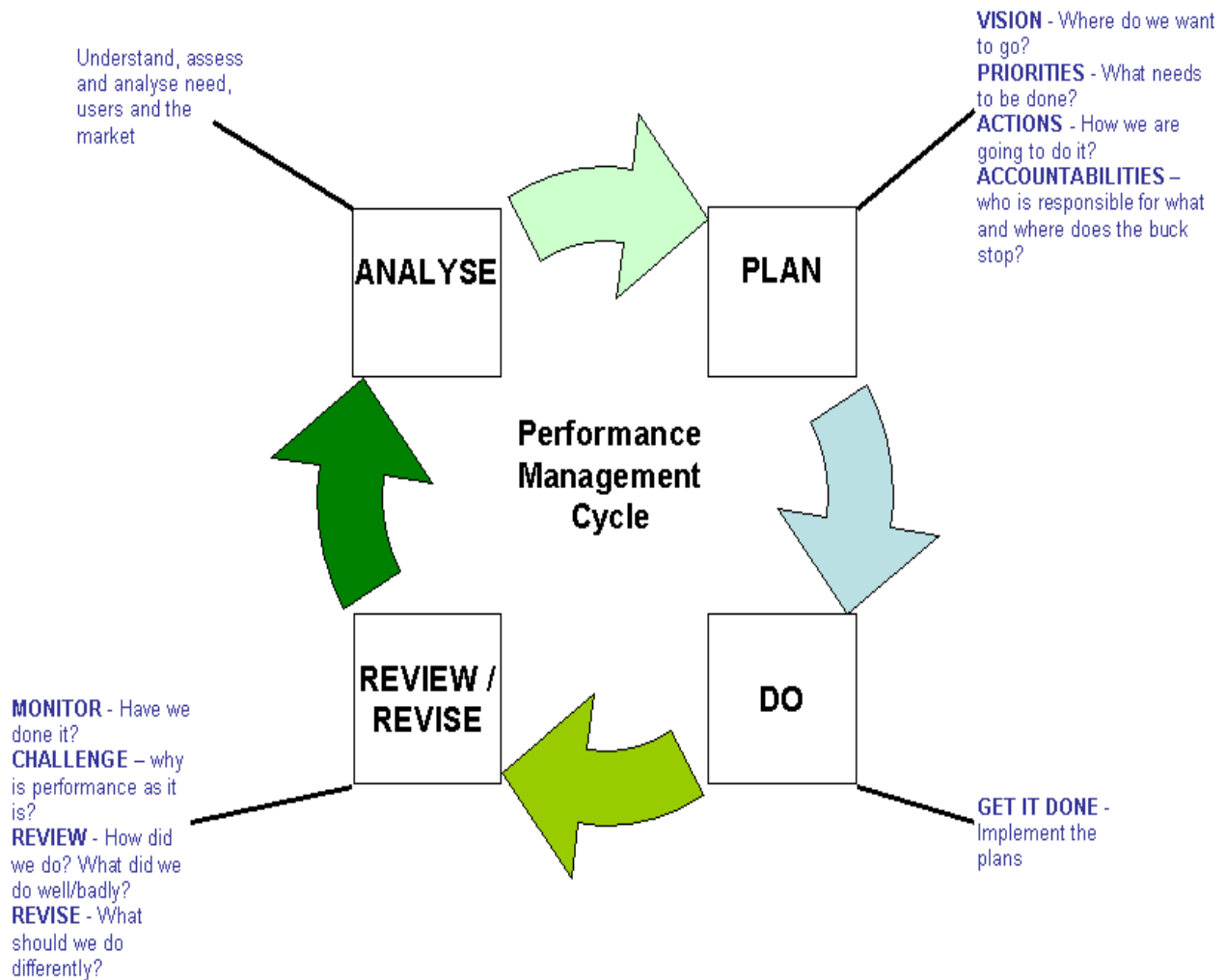
The advice given will usually be contained within the board papers and will be presented to the appropriate meeting to facilitate discussion. Reports are circulated with the agenda where possible, to allow consideration in advance of the meeting at which a decision is to be taken. Where applicable the recommendation will be supported by appropriate external evidence or advice. Minutes of Council, Board and Committee meetings are available to the public.

An overview and scrutiny function is undertaken by the Overview and Scrutiny Committee, supported by standing panels. The Committee's functions contribute to policy development and help to shape major plans and strategies and publicly hold the Executive to account for the decisions it makes. As a consequence, the Committee plays an important role in supporting the programme of improvements to Council services. Councillors with an overview and scrutiny role work independently, openly and transparently, and the recommendations made are founded in the evidence received from experts in the fields being reviewed, service users and colleagues. The Committee and Panels seek to involve representatives of non-council organisations, interest groups and members of the public in their activities where it is considered that such involvement would bring new perspectives, expertise and/or specialist knowledge, to allow scrutiny to fulfil its role. An annual report on scrutiny activity is produced and reported to Full City Council, covering the vision for Overview and Scrutiny, its role and its method of working.

Arrangements for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

It is important that the Council uses available resources to provide the appropriate quality of services for its citizens in accordance with its objectives and priorities and to operate within its means. The Council Plan contains targets to be met in achieving these priorities. These are translated into actions through strategic business plans and operational plans, and the Performance Management Framework (PMF), illustrated below, is in place to monitor and review the effectiveness of the actions put in place.

Performance Management Framework



The PMF has a clear focus on outcomes. Comprehensive and effective performance management systems operate at all levels throughout the Council. Performance is managed at the City level through the Nottingham Plan Management Partnership Board and at corporate level through the Corporate Leadership Team and Departmental Leadership Teams. The framework has been subject to positive review by both the Audit Committee and Overview and Scrutiny Committee. It establishes a clear relationship between corporate priorities and decisions taken from the top down to individual level via business planning. The framework was substantially updated in 2013/14 and further revisions have been undertaken each year to ensure it continues to reflect the prevailing economic and political climate. The PMF sets out the high level approach the Council will take to performance management, ensuring that all are:

- Clear about what to achieve, by when and by whom
- Focussing resources and action on the right outcomes
- Aware of how things are going
- Reporting on progress – to both internal and external audiences
- Able to quickly access effective support.

Accordingly the Framework:

- Sets out the principles of our performance culture and how this can be sustained
- Applies to all levels of council activity
- Defines the roles, responsibilities and reporting arrangements for all involved
- Has a broad scope, which includes strategic business planning, risk management, workforce planning, colleague performance appraisal and performance monitoring and management at team, service, departmental and organisational levels
- Has wider links to the Council's Transformation Portfolio.

Performance reports on the progress of delivering the Council Plan objectives is taken quarterly to the Executive Board with highlights reported in the Nottingham Arrow. Both the Nottingham Plan and Council Plan are tracked by a set of key performance indicators and some information is provided by external agencies such as the police. The Council's Corporate Leadership Team continues to drive the focus on continuous improvement. Relative performance for a number of the Council's highest priorities remains in place. Although external assurance from bodies such as the Care and Quality Commission (CQC) and Ofsted currently remains in place, this is specific to certain service areas only.

The Council has a software system for performance and business management used throughout the Council. The system is used to monitor and manage performance at all levels and helps to develop and improve the way performance information is collected, presented and used to improve service delivery. The quality of services provided is also monitored by routinely seeking the views and experiences of citizens, service users and colleagues.

The Council's budget process establishes the resources required to deliver its services and objectives and includes reviews of the overall use of resources. Appropriate limits have been approved in line with the Prudential Code for Capital Accounting. Financial procedures are identified in approved Financial Regulations. Financial reserves are kept under review and the Council maintains an adequate Internal Audit function. The Council also publishes its Statement of Accounts in accordance with statutory and professional guidance. The Council's accounts have been successfully subjected to a rigorous external audit.

Financial performance is monitored regularly with senior management and councillors receiving monthly financial reports to help manage the Council's performance. Colleagues responsible for financial resources are required to sign Personal Accountability Statements in recognition of their responsibilities to use these resources effectively, and their success is monitored as part of the performance appraisal process.

Arrangements for defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

In local government the governing body is the City Council, which has overall responsibility for directing and controlling all the work undertaken in its name. The Constitution, approved by City Council, sets out how it operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Nottingham City Council has adopted the 'Strong Leader' and Cabinet model of Executive Governance as set out in the provisions of the Local Government Act 2000 (as amended), and this is reflected throughout the Constitution. Responsibility for decision making, the role of the City Council, Executive Board, Committees and the process for determining Key

Decisions are well documented and defined in the Constitution, and may be viewed by following the following link:

[Nottingham-City-Councils-Constitution](#)

The Constitution includes a scheme of delegations which is detailed so that the functions of City Council, Executive Board, Portfolio Holders, Committees and officers are specified.

The City Council comprises 55 councillors, with the Labour Party having overall control. The councillors meet as a Full Council around every six weeks. A limited number of items of business, such as approving the level of Council Tax, must be considered by the Full Council. For other decisions, the Leader and Executive Councillors hold decision-making powers through the Executive Board, each Executive Councillor including the Leader, holds a portfolio which supports the priorities of the Council.

The role of each Portfolio Holder is defined in terms of both general and specific responsibilities. Councillors who are not on the Executive may be members of one of the regulatory committees or undertake overview and scrutiny activities. Detailed terms of reference are in place for all committees.

There is a clear distinction between the Executive and Scrutiny functions within the Council and clearly defined roles for these functions which are understood by both bodies. The Council has protocols in place to ensure communication between councillors and colleagues in their respective roles and which govern their relationship. The role of Overview and Scrutiny is set out in the detailed terms of reference for the committee itself and for the panels which report to it.

Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for councillors and staff

A hallmark of good governance is the development of shared values which become part of the organisation's culture, underpinning policy and behaviour throughout the organisation, from the governing body to all colleagues. These are in addition to compliance with legal requirements, for example on equal opportunities. The Council recognises that to be effective in fulfilling their role councillors will need to work closely with and talk to all colleagues and partners, and that the principles of good governance are followed in all Council business.

The Council has put arrangements in place to ensure that procedures and operations are designed in conformity with appropriate ethical standards and their continuing compliance in practice is monitored. Breaches of the code of conduct relating to councillors would be considered by the Standards Committee. Colleagues can report non conformity with appropriate ethical standards via the Confidential Reporting Code. Councillors can raise issues of non-compliance directly with the Standards Committee. Citizens are encouraged to report concerns through any of the routes included in the Confidential Reporting Code or via the Council's "Have Your Say" procedure. The Council's People Management Handbook includes sections relating to raising concerns, performance improvement and discipline.

At an individual level the Council has developed and adopted formal codes of conduct defining the standards of personal behaviour to which individual councillors and colleagues are required to adhere. All councillors have to sign a declaration to abide by and uphold the Council's Code of Conduct for Members. Under the Code councillors are also required to register interests. All councillors have signed and agreed to adhere to the Members Code of

Conduct and training on the Code is provided as part of an induction programme. Support staff also had briefings about the Code.

The Council's Monitoring Officer maintains the Register of Councillors' Interests that have been brought to his attention. Councillors are obliged by law to keep their registration up-to-date (and failure to do so constitutes an offence) and they must inform the Monitoring Officer of any changes within 28 days of the relevant event. Councillors are regularly reminded of this responsibility. A councillor's failure to register interests can be the subject of a complaint. All councillors have received training relating to the Code of Conduct.

In addition to their specific portfolio responsibilities all Portfolio Holders have a common responsibility to ensure that the executive functions within the portfolio are performed in accordance with approved Council policies and strategies and to the highest ethical standards. These values are also enshrined in the respective codes of conduct for colleagues, councillors and the councillor/colleague protocol. The need for disclosure of conflicts of interest is a standard agenda item at all meetings, and a review of the minutes of the Executive Board indicates that potential conflicts of interest are regularly disclosed. The Council has put arrangements in place to ensure that the associated procedures and operations are designed in conformity with appropriate ethical standards.

Arrangements for reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Decision making within a good governance framework is complex and challenging. It must further the organisation's purpose and strategic direction and be robust in the medium and longer terms. To make such decisions councillors must be well informed.

The Constitution and its appendices clearly define those matters specifically reserved for collective decision of the Authority and those matters that may be delegated. The responsibility for updating the Constitution is set with the Monitoring Officer. Reports making changes to the Constitution including those to Financial Regulations are made to the Full Council for approval. Most reports are available for public inspection as are the results of deliberations recorded in meeting minutes.

Councillors and colleagues making decisions require the support of appropriate systems to help ensure that good decisions are made / implemented and that resources are most effectively deployed. Risk management with the identification and mitigation of risk plays an important role in supporting service planning, project planning and delivery, decision making and achievement of the Council's objectives.

The Risk Management Framework (RMF) sets out the way in which the Council identifies monitors and mitigates its strategic, operational and project/partnership risks. The RMF is regularly updated and is endorsed by the Corporate Leadership Team (CLT) and approved by Audit Committee annually. The RMF comprises a Risk Policy, Strategy, and a Process Guide covers risk management in terms of:

- Purpose, principles and benefits
- Decision making, projects and partnerships
- Appetite, escalation and delegation
- Roles and responsibilities
- Detailed practical guide

During 2016/2017 the RMF is being updated with a programme of re-engagement and training for all responsible risk owners, including Audit Committee and CLT. Part of this will include a review of the council’s risk appetite and tolerance. The result will be a risk management process that provides a structured approach, with built in flexibility to meet the needs of the increasing diverse activities undertaken by the council.

. The Risk Management Framework (under review)



Risk Management (RM) arrangements are integrated to other key documents including the MTFS, Financial Regulations and Corporate Financial Procedures. The Director of Resilience is responsible for risk management, championing its development and implementation. The CLT takes an active role in reviewing strategic risks along with the Audit Committee through updates of the Strategic Risk Register (SRR). Work takes place to review the composition of the SRR and test alignment of risks to the Council’s strategic priorities. Similarly, a significant commitment is made to supporting effective risk management of the Transformation/Big Ticket programmes through the work of the Portfolio Programme Management Office.

RM training has been provided to the Audit Committee as part of the councillor induction process and is to be refreshed in 2016/2017. Wider training for colleagues is also now available supported by e-learning, workshops and revised guidance, consistent with the updated RMF. Risk workshops have been run by a Corporate Risk Specialist and have included basic risk management awareness.

The Strategic Risk Strategy details the work being undertaken in 2016/2017 to refresh the RMF and provides practical guidance on the management of the SRR and the risks within it, including escalation/delegation of risks, reporting arrangements and responsibilities. Risk action plans are developed for all risk registers, maintaining a rigorous risk and opportunity management approach while enabling flexibility in how risks are managed at different levels of the organisation. This reflects for example, departmental priorities, ways of working and

activities, while complying with requirements of higher level risk strategies. The RMF is available to colleagues through the Council's intranet site.

Arrangements for ensuring that the Authority's financial management arrangements conform with the governance requirements of the CIPFA statement on the role of the Chief Finance Officer

An essential element of good governance is the existence of sound arrangements for the management of financial resources.

The Chief Finance Officer (CFO) is a professionally qualified accountant. The CFO sits on the CLT and is able to contribute positively to decision making affecting the delivery of the Council's objectives. The CFO is able to promote good financial management and in so doing makes sure effective use is made of City Council resources and ensures that the finance function continually develops and remains fit for purpose. The following illustrates the Financial Framework put in operation to support the delivery of the Council's objectives.

The Financial Framework

CATEGORY	OVERALL	REVENUE	CAPITAL	TREASURY MANAGEMENT	PROCUREMENT	RISK MANAGEMENT
Strategies	MTFS					
		Income Generation Strategy	Capital Strategy & AMP	Treasury Management Strategy	Procurement Strategy	Risk Management Framework
Guidance	CIPFA technical guidance &	Budget Guidelines	Capital Guidelines	CIPFA Code of Practice for TM	CIPS Procurement Toolkit &	Risk Management Policy and Guidance
Plans	MTFP	Annual Budget	Capital Programme & AMP	Treasury Policy Statement	Procurement Checklist	Risk Responses
Governance	Constitution	Budget Management & Control statements & Annual Governance Statement		Prudential Indicators & Annual Report	Contract & Finance Procedure Rules	Risk Register reporting and regular review
	Financial Regulations and Standing Orders					Audit Committee Reports & annual report
	Internal & External Audit Plans and our response to inspection and audit reports					

Arrangements for undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The operation of an effective Audit Committee is an essential part of good governance. The Audit Committee was established in 2008/09 and annual reports of its achievements are sent to Full Council. The role of the Committee is developing and regular interaction with similar Committees in other Core Cities is undertaken to share best practice.

Arrangements for ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

In order to demonstrate the highest level of stewardship of public resources it is important that all work undertaken on behalf of the Council is transparent, falls within legal powers and is in accordance with professionally recognised best practice. However, governance cannot be reduced to a set of rules, or achieved fully by compliance with a set of requirements.

This ethos of good governance can be expressed as values and demonstrated in behaviour. In England, the Local Government Act 2000 outlined ten principles of conduct for use in local government bodies built on the seven principles for the conduct of people in public life established by the Committee on Standards in Public Life (the Nolan principles). These principles are enshrined in the Council's Codes of Conduct and are summarised in the following table:

Local Government Act 2000 Ten Principles of Conduct

Principle	Holders of public office:-
Selflessness	Should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends
Integrity	Should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.
Objectivity	Should make choices on merit in carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits.
Accountability	Are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
Openness	Should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and actions and restrict information only when the wider public interest clearly demands.
Honesty	Have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
Leadership	Should promote and support these principles by leadership and example.
Respect for others	Should promote equality by not discriminating unlawfully against any person and by treating people with respect, regardless of their age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers and its other employees.
Duty to uphold the law	Should uphold the law, and on all occasions, act in accordance with the trust that the public is entitled to place in them.
Stewardship	Should do whatever they are able to do to ensure that their authorities use their resources prudently and in accordance with the law.

The Council's establishment incorporates all posts required by statute. These key roles are performed by the Council's Head of Paid Services, Monitoring Officer and Section 151/114 Officer. The roles of these officers are laid down in the Council's Constitution and are defined clearly in the associated job descriptions. As Head of Paid Service, the Chief Executive is ultimately responsible and accountable to the Council for all aspects of operational management.

The CFO undertakes the responsibilities of the Section 151 Officer including responsibility to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and for maintaining an effective system of internal financial control.

The role of the Monitoring Officer includes responsibility to the Council for ensuring that agreed procedures are followed and that all applicable statutes, regulations and other relevant statements of good practice are complied with. The Monitoring Officer is responsible for arrangements for whistle blowing to which staff and those contracting with the Council have access; arrangements have been put in place allowing them access and the right of complaint is well publicised.

Service areas use professional networks to keep abreast of developments. The central policy function has been enhanced and works well in applying a Nottingham perspective to emerging policy trends and prospective legislation. Increasing use is made of web-based resources from specialist legal firms for legislative updates. Professional advice is offered and taken in advance of decision making when decisions have legal or financial implications. Advice on legal and financial matters is taken from internal and, where necessary, external sources. The advice given will usually be contained within the board papers.

The Council has Budget and Policy Framework Procedure rules in place, which set out how budget and policy decisions are made. Key roles are performed by the Council's Head of Paid Services, Monitoring Officer and Section 151 Officer. A regular programme of work is carried out by Internal Audit reviewing compliance with established procedures. In addition, scrutiny committees, external audit and external inspection agencies contribute to the review of the Council's compliance with its policies, procedures, laws and regulations.

Arrangements for identifying the development needs of councillors and senior colleagues in relation to their strategic roles, supported by appropriate training

Effective local government relies on public confidence in councillors and colleagues. Good governance strengthens credibility and confidence in public services. The Council needs the right skills to direct and control resources effectively. Governance roles and responsibilities are challenging and demanding, and councillors need the right skills for their roles. In addition, governance is strengthened by the participation of people with many different types of knowledge and experience.

Generic, individual and group based training and development activities are in place with a mix of internal and external training provision. A councillor induction programme has been delivered by the cross party Councillor Development Steering Group (CDSG). The development programme has continued to meet councillor's needs over the last year and CDSG have continued to plan for and support both new and returned councillors' general and individual development needs and aspirations.

Human, financial and other resources are managed efficiently and effectively by the Council. Induction programmes for both councillors and colleagues are in place. The Constitution

contains clear details of the roles and responsibilities for councillors, including the Leader and Portfolio Holders. All colleagues have detailed job descriptions and person specifications, and individual development requirements for colleagues are identified using a Performance Appraisal process. This process has recently been refreshed. Consultation with key customers is also used to understand the development needs for the Council.

Corporate Directors are experienced in their respective fields and are assessed by the Chief Executive as part of their performance appraisals. Most hold relevant professional qualifications which impose the requirement for continuing professional development. Corporate Directors organise their own training within the context of performance appraisals and any development obligations imposed by professional bodies of which they are members. Similarly, the skills of other staff are developed on an ongoing basis as part of the performance appraisal and service planning process

Arrangements for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

In order to understand the needs and demands of the community it is essential that appropriate procedures and processes are in place to ensure the relationships between the council, its partners and its citizens are clear, so that each knows what is expected of the other.

The Council is accountable in a number of ways. Councillors are democratically accountable to their local area and this gives a clear leadership role in building sustainable communities. All councillors must account to their communities for the decisions they have taken and the rationale behind those decisions. The Council is subject to external review through the external audit of its financial statements and some inspection regimes. Similarly, the Council budget is subject to significant influence and overview by government, which has powers to intervene. The Council is required to publish its financial statements and to prepare an annual report.

The Council is committed to the creation of sustainable and democratic communities, encouraging active citizenship and democratic engagement by developing the role of area committees; wide consultation on matters of local concern; events such as those that take place in Local Democracy Week and the promotion of councillors and their key roles within their communities. A range of media is used to let local people and employees know about progress on the Council's plans. For example, the "Contact Us" and "Have your Say" sections of the internet site allows citizens to find out about initiatives, register interest in future consultations and make observations. The Council welcomes and positively encourages public involvement in the way in which business is conducted.

Councillors and colleagues are both subject to codes of conduct. Additionally, where maladministration may have occurred, an aggrieved person may appeal either through their local councillor or directly to the Ombudsman. Councillors have been briefed in detail at induction by the Council's Monitoring Officer about the Code of Conduct and what its provisions mean in practice. Additionally there is a Member/Officer protocol which defines how councillors and officers should work together appropriately and the standards of personal behaviour and conduct expected.

The Council is accountable to the community it serves and publishes on an annual basis, information on its vision, strategy, plans, financial performance and outcomes, achievements and the satisfaction of service users in the previous period. The Council is dedicated to

providing the easiest possible access to information while protecting individuals' privacy. Some information will not be available to the public as there are several grounds for exemption under the Freedom of Information Act. Most of these exemptions are subject to the application of a Public Interest Test. This is a test of whether the reasons for disclosing the information are outweighed by the exemption. Most Council meetings are open to the public and all minutes of meetings are available for examination, and reports clearly explain technical issues and their implications. A few simple rules have been introduced to help the public question session run smoothly and to be of maximum benefit to the public. The Executive Board meets in public (except for exempt items).

The Council has committed itself to wide consultation on matters of local concern. It expects that any consultation carried out is used to engage and gain the views of relevant communities, plan what needs to be achieved, establish how far the services meet their objectives from the customer's perspective, enable changes to services in line with customer feedback, determine how visible changes can be tracked as a result of consultation and provide feedback on the results and actions arising from consultation.

Arrangements for incorporating good governance arrangements in respect of partnerships and other group working and reflecting these in the authority's overall governance arrangements.

In order that shared goals are achieved it is important that the principles of good governance are put in place across the full range of Council work. When working in group or partnership arrangements the existence of sound governance helps ensure that shared goals are achieved and resources controlled and used effectively.

The Council engages with all sections of the community whilst working with partnerships. A variety of mechanisms are used to ensure the engagement is appropriate to the diverse communities. The Nottingham Plan to 2020 (One Nottingham Sustainable Community Strategy) provides the overarching vision, objectives and priorities for the Council and the One Nottingham family of partnerships. The Nottingham Plan to 2020 has full commitment across the Council, partners and community. Given the significant political and economic changes since the plan's launch, the One Nottingham Board and the leadership of Nottingham City Council requested a refresh of the Nottingham Plan targets in 2013/14, to ensure that the right areas of work are prioritised, partnership resources are targeted in the most efficient way and the best target measures are used to ensure the plan is effectively delivering for the citizens of Nottingham. The refresh of the Nottingham Plan to 2020 is not a full revision. Targets were revisited to make sure they are appropriate, credible, robust and measurable going forward, whilst maintaining the ambition that was established when the plan was launched in 2009 as a contract with citizens. It also considered possible areas within the plan which would most benefit from dedicated partnership focus. Recommendations were developed by Nottingham Plan lead officers and have been through a challenge process with peers and performance colleagues, taking account of performance to date. The targets in the plan are reviewed on an annual basis and an updated plan is agreed by the One Nottingham Board including amended and or/revised targets for the coming year. The plan is published on One Nottingham's web page.

The Council's Partnership Governance Framework (PGF) sets out the approach to managing work with significant partnerships and provides a mechanism for ensuring that Councillors and lead officers are clear about their roles and responsibilities in relation to significant partnerships. The mechanism is the annual health checks which includes a section to assess that the governance of the partnership is clear and appropriate. The health checks enable the partnership to assess that it has a clear set of values and guiding principles against which

decision making and actions can be judged. These are often set out in the partnerships' constitutions including codes of conduct. The health check also includes an assessment of the aims and objectives of the partnerships, including alignment between the partnership and the Nottingham Plan, and also a section to enable the partnerships to assess the robustness and clarity of their decision making, delegated powers and accountability. The Partnership Governance Framework, via the health checks, provides the mechanism for significant partnerships to assess the extent to which their aims and objectives align to The Nottingham Plan to 2020 and the vision for 2030.

In 2013/14 two additions were included in the health checks for partnerships to confirm that the Council lead officer is actively engaged and that, where applicable, for the most recent financial year, the partnership had an 'unqualified audit opinion' and that recommendations are actioned. The annual health checks have previously been updated to ensure that the partnerships were able to assess whether 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. This contributes to the assessment for the 'decision making and accountability' capability. The checks also enable each partnership to assess that it has a clear set of values and guiding principles against which decision making and actions can be judged. These are set out in the partnerships' constitution, policies and procedures. The register of significant partnerships includes the status of the partnerships, its membership, and a summary of how its aims and roles are aligned with the Council's strategic plans. Each year on a rolling programme three of the partnerships are scrutinised to verify the quality and accuracy of response, and their documentation checked with advice given where needed. Each partnership is verified at least once every four years. The register, and an overview of the health check results, including proposed actions where remedial work is needed, are reported to the Audit Committee. The checks include a section for lead officers and chairs to self-assess the governance of partnership risk management (called "partnership risk management") and a section for "overall headline risks". The contents of these are shared with the Corporate Risk Specialist. The register of significant partnerships is reviewed and revised on an annual basis with emerging partnerships added as appropriate, and those who no longer qualify being removed and their effectiveness assessed in different ways, often by contract or service level agreement.

The Council and partners in One Nottingham and other significant partnerships have an excellent understanding of its diverse communities and their needs (see Nottingham Insight, Citizens Survey 2015, Joint Strategic Needs Assessment, State of Nottingham Report, Crime & Disorder Needs Assessment, Ward Report and wealth of ward and mosaic data) which is used to shape our engagement.

The Research, Engagement and Consultation (REC) function within the Strategy and Commissioning Directorate supports all services across the Council to effectively consult and engage with citizens and make the best use of the findings. This includes providing advice and support on planning, designing and undertaking consultations (including surveys, event evaluations and focus groups) and engagement activity. As part of this, the team advises colleagues as to the most appropriate ways of consulting and engaging depending upon the intended audience, and ensures that colleagues think about using alternative formats and interpretation services when necessary. REC also manages the Citizens' Panel, which consists of 300 citizens from across the city. The demographic profile of the Panel is broadly representative of the city.- Panel members receive regular surveys and are regularly called upon to take part in focus groups and also get involved in testing the customer experience of services. REC also ensures that young people participate and engage in decision-making about services and their communities. As part of this, the Engagement and Participation Lead Officer within REC manages a variety of groups for young people of different ages and

backgrounds. REC also ensures that citizens' views are taken into account in the various commissioning reviews. This may involve managing focus groups and reference groups, helping to plan and deliver stakeholder conferences, planning survey activity and supporting citizen involvement in tendering specification, tender assessment and quality assurance.

Other organisations where the Council holds a substantial interest include its group companies, charities and trusts. In every such interest the Council endeavours to ensure they are set up with appropriate governance arrangements and are expected to comply with all relevant laws and regulations, and their financial statements and other published information are expected to be accurate and reliable.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Corporate Directors within the Council who have responsibility for the development and maintenance of the governance environment, Statutory Officers, key colleagues, the Head of Audit and Risk's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review also looks at governance arrangements undertaken within its significant partnerships and within its group members.

Process that has been applied in maintaining and reviewing the effectiveness of the governance framework

The purpose of the Constitution is to set out how the Council conducts its business, how decisions are made and the procedures that are followed to ensure that these decisions are effective, efficient and transparent so that the Council remains accountable to citizens.

Some of these procedures are required by law while others are a matter for the Council to determine. The Council exercises all its powers and duties in accordance with the law and its approved Constitution.

Nottingham City Council has adopted the 'Strong Leader' and Cabinet model of Executive Governance as set out in the provisions of the Local Government Act 2000 (as amended), and this is reflected throughout the Constitution. Portfolio Holders share responsibility with the Leader, Deputy Leader and other members of the Executive for the Executive business of the Council.

The principle bodies with responsibility for governance and their terms of reference are included in the Constitution and are summarised below, together with some of the topics considered during the year. All the associated reports and agendas are publicly available and may be found at the following website:

<http://www.nottinghamcity.gov.uk/article/23479/Council-Meetings-and-Decisions>

Principal Constitutional Bodies Dealing With Governance

Body	Summary of Governance role
<p style="text-align: center;">City Council</p>	<p>City Council, comprising all 55 councillors, is the foremost public decision making forum of the Council that sets the policy framework and budget. The policy framework consists of the most important plans and strategies adopted by the Council. The Council meeting is chaired by the Lord Mayor.</p> <p>Topics Considered by the Council</p> <ul style="list-style-type: none"> • Questions from Councillors and Citizens • The Adoption of the Labour Party Manifesto as Council Policy • General Amendments to the Constitution • Decisions Taken under the Urgency Procedures • The Overview and Scrutiny Annual Report 2014-15 • The Appointment of Corporate Directors • The Nottingham City Council Plan 2015-19 • City of Nottingham Council Tax Support Scheme • Pay Policy Statement 2016/17 • Treasury Management 2016/17 • The Budget 2016/17
<p style="text-align: center;">Executive Board</p>	<p>The role of the Executive Board is to take key decisions as delegated by the City Council. The work also encompasses receiving performance and financial information which determines the strategic direction of the Council.</p> <p>Topics Considered by the Board</p> <ul style="list-style-type: none"> • Key Decisions • Pre-Audit Financial Revenue and Capital Outturn Report 2014/15 • Nottingham Plan Annual Report 14/15 (Year 5); Council Plan 2015-19 • Treasury Management; 2015/16 Half Yearly Update; 2014/15 Annual Report; 2016/17 Strategy • Budget Consultation 2016/17 • Review of 2015/16 Revenue and Capital Budgets • Council Tax - Determination of The 2016/17 Tax Base
<p style="text-align: center;">Overview and Scrutiny Committee</p>	<p>The scrutiny of Executive decisions is an essential element in the effective governance of the Council, and the scrutiny function has wide-ranging powers under the Local Government Act 2000 to examine policy development, executive decisions and matters of wider local concern.</p> <p>The Committee consists of Councillors who are not on the Executive, who are charged with keeping an overview of Council business and City concerns and scrutinising areas of particular interest or concern. Their role is to hold the Executive to account when deemed necessary in the business they undertake, and also to assist in the development and review of Council policy. Tasks involve looking in detail at areas of service delivery or issues</p>

Body	Summary of Governance role
	<p>of general concern in the Council, external partnerships and organisations. The Committee makes recommendations to the Executive or to the whole Council and on occasion, to outside organisations, on issues which might include suggestions for improvements or different ways of doing things. The Council also has a statutory responsibility to scrutinise substantial developments or variations in NHS services and this is undertaken by the Health Scrutiny Panel or by the Joint City / County Health Scrutiny Committee.</p> <p>Topics Considered by the Committee</p> <ul style="list-style-type: none"> • Establishment of Overview and Scrutiny Committee Sub-Committees 2015/16; Programme For Scrutiny 2016/17; Work Programme 2015/16 • Nottingham City Council's Summer of Engagement • Citizen Survey • Management and Organisation of The Local And Parliamentary Elections Held In May 2015 • Nottingham City Council Plan 2015-19 • Nottingham Growth Plan • Nottingham City Council's Good To Great Operating Model • Nottingham Plan 14/15 Annual Report (Year 5)
Standards Committee	<p>The Council has a Standards Committee constituted in accordance with the Standards Committee (England) Regulations 2008 that oversees the Code of Conduct and other governance matters. The Committee meets as and when required and there was no meeting called in the year.</p>
Audit Committee	<p>The Audit Committee has responsibility for the development of risk within the Council and is the designated body for the overview of the Council's Internal Audit function. An annual report is produced by the Chair of the Committee, reflecting the work undertaken and the associated linkages it has to improving governance.</p> <p>Topics Considered</p> <ul style="list-style-type: none"> • Audit Committee: - Terms Of Reference And Annual Work Programme; Annual Report 2014/15 • Treasury Management: - Annual Report 2014/15, 2015/16 Half Yearly Update; 2016/17 Strategy • East Midlands Shared Services Annual Report 2015 • Annual Governance Statement 2014/15; Progress Made To Date on Issues Reported 2014/15 And Process For Producing 2015/16 Statement • Review of Accounting Policies • Statement of Accounts

Body	Summary of Governance role
	<ul style="list-style-type: none"> • External Auditors; Progress Report And Technical Updates; Annual Audit Letter; External Audit Plan 2015/16 • Ombudsman Annual Letter • Capital Programme 2015/16 to 2019/20 • Council Tax Discounts • Counter Fraud Strategy • Internal Audit: - Annual Report; Charter 2015; Quarterly Reports; Reports Selected For Examination • Partnership Governance Health Checks And Update To Register Of Significant Partners • Performance Management Framework • Risk:- Review And Improvement Of The Delivery Of Strategic Risk Management; Update On The Review And Improvement Of The Delivery Of Strategic Risk; • Information Technology; Progress Against Recommendations Re: Review Of Nottingham City Council IT Services; Resilience Of City Council IT Systems

Head of Audit and Risk (HoIA)

Internal Audit is an independent, objective assurance and consulting activity aiding the Council in accomplishing its objectives by bringing a systematic, disciplined approach directed to evaluate and improve the Council's control and governance processes. Using information and evidence collected during the year the HoIA produces an annual audit report and opinion summarising the effectiveness of the governance arrangements in place.

In 2015/16 The HoIA maintained processes complying with the governance requirements set down in the CIPFA Statement on the role of the Head of Internal Audit. The service met the requirements of the Account and Audit Regulations 2015 and associated regulations and an independent review confirmed the service substantially complied with the principles contained in the Public Sector Internal Audit Standards (PSIAS).

The HoIA reports to Corporate Directors and stakeholders who are responsible for ensuring that proper standards of internal control operate within their areas of responsibility. Internal Audit has reviewed the controls and given an opinion in respect of the systems and processes found in place. The 2015/16 Audit Plan, as agreed by the Audit Committee and Corporate Directors and key stakeholders, was completed in accordance with the professional standards. The HoIA has also overseen those policies and procedures in place addressing the risk of fraud and irregularity, and is of the opinion that they align with best practice as described in the Cipfa Code for managing the risk of fraud and corruption. Additionally during 2015 the HoIA has developed the use of a corporate team to strengthen the counter fraud function.

HoIA Overall Opinion

The HoIA has undertaken reviews of the internal control procedures in respect of the key systems and processes of the Council and where appropriate, its partners. The work was

planned using a risk based model of the Council's activities. It has been supplemented by ad hoc reviews in respect of irregularities and other work commissioned by Corporate Directors or the partners of the Council and the work undertaken by external review agencies. Reports in respect of all reviews were issued to those with responsibility, together with recommendations and agreed action plans. Each report issued included a level of assurance that could be assessed from its findings. Each quarter, a list of reports was sent to the Audit Committee for scrutiny and a number of audits were selected for in depth review at the Committee.

Throughout 2015/16 the HoIA has continuously reviewed the significant challenges and risks associated with the Council's operations and allocated the necessary resources, via the audit plan, to help him form an opinion on the Council's governance arrangements. In forming his opinion the HoIA has reviewed all the IA reports issued in 2015/16 and drawn upon available external sources of assurance from independent review bodies and internal assurance mechanisms to identify and assess the key control risks to the Council's objectives. Accordingly, 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 2015/16 financial year, there have been no significant issues (as defined in the CIPFA Code of Practice) reported by IA. Furthermore, on the basis of the audit work undertaken during the 2015/16 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a reasonable level of assurance can be given that internal control systems are operating effectively within the Council, its significant partners and associated groups.

Other assurance mechanisms

Corporate Directors and statutory officers have provided an assurance statement supporting the AGS for 2015/16. These statements have been supplemented by assurance gathered from key colleagues responsible for Internal Audit, Risk, Human Resources, significant partnerships and group members, and have also been informed by independent external reviews, including the external auditor. The assurance is based around questionnaires developed from the CIPFA/SOLACE Framework for Corporate Governance.

In summary, the Council has reviewed its systems of internal control and taken a comprehensive approach to considering and obtaining assurance from many different sources. The Council has been informed on the implications of the result of the review of the effectiveness of the governance framework, and the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed, and those to be specifically addressed with new actions planned, are outlined below.

Issues reported

Part of the AGS report reflects the position on significant control issues affecting the Council and the action plans put in place to address them. In ascertaining the significance of the control issues reported, the Council has used CIPFA guidance on the factors involved. These factors are summarised as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- The issue has led to a material impact on the accounts.

- The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
- The Head of Audit and Risk has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

Issues worthy of note are issues that are not categorised as significant but which require attention to ensure continuous improvement of the system of internal control. New or outstanding issues are as follows:

Issues Worthy of Noting

Central Government Review of Local Government Funding & Balancing the Council's Budget

The Council, like all other local authorities across the country, has seen a substantial reduction in government funding as a consequence of the Government's policies to tackle the national fiscal deficit.

Between 2010/11 and 2016/17 the overall settlement funding for the Council, after taking account of transfers in funding and new burdens, has been reduced by the equivalent of £118.6m or 44.7%.

In particular Nottingham's Revenue Support Grant has more than halved since 2013/14, with a reduction of £68.4m by 2016/17 with a further cut of at least £33.0m by 2019/20 already announced by Government as part of a 4-year settlement.

The Medium Term Financial Planning Process

The City Council's annual budget is constructed in order to deliver the Council Plan. The Medium Term Financial Strategy (MTFS) is the overarching framework within which the Council's financial planning and management activity takes place. The annual budget is an integral part of the rolling multi-year Medium Term Financial Plan (MTFP). This approach enables it to support delivery of the Council's priorities, services and improvements. It provides the means by which planned spending may be controlled within available resources. Therefore, this assessment of the robustness of the budget focuses on the likelihood that actual spending will vary from the budget and the consequent impact on the financial health of the organisation.

The Council is a going concern and the budget process is part of a continuous service planning and financial cycle. Therefore, a wealth of knowledge and understanding of the previous and current local and national financial and economic environments is used to make informed assumptions and judgements about the future. This activity seeks to establish a robust budget which is appropriate, realistic and constructed having taken a practical and appropriate assessment of risk.

The Council's approach to setting recent budgets has, where possible, also been guided by the following principles:

- to pursue commercialisation opportunities to generate income for the Council; and help offset a proportion of the impact of grant reductions;
- reducing demand and reviewing the way we commission our services;
- redesigning and modernising our service provision / identifying efficiencies;
- to protect frontline services and minimise the impact of service reductions and changes on vulnerable citizens

Over the last 6 years Nottingham has found cumulative savings of £175.1m with a further £28.6m planned for 2016/17.

Between 2010/11 and 2012/13 Nottingham adopted a “strategic choice” approach to clearly identifying all departmental savings, fees & charges and invest to save proposals.

To meet increasing budget gaps several transformational “big ticket” programmes were also introduced in 2012/13 to deliver significant savings and were further expanded over 2013/14 and 2014/15.

The budget approach since 2015/16 has been to focus on managing demand and cost pressures; increasing income; implementing service redesign and efficiencies before proposing the stopping of specific service delivery.

The Council will have to make difficult decisions about the services it continues to provide in order to begin closing the £23.3m budget gap currently projected for 2017/18, rising to £42.1m in 2019/20.

Children in Care

The Children in Care service exists primarily to work with children who are at risk of significant harm and have been brought into the care of the Council. Our priorities for children in our care are to ensure that they are safe, healthy, and achieving their full potential in education. Wherever possible we will work to return children to live with their birth or extended families when it is safe to do so. If returning to family is not achievable then adoption and fostering are the next preferred options. For some children and young people residential care is the appropriate placement.

The cost of funding children in care arrangements and associated budget pressures are key issues facing the service. There is a need to recruit and retain more of our own foster carers and Social Workers to maintain stable children in care arrangements and reduce agency spend.

Latest Position

In a recent announcement the Department for Education have stated that nationally Children in Care numbers are at a 30 year high. Because of our early help preventative and support work with families the Council is performing well against similar Councils. Our Children in Care numbers have remained stable against the previous year; in April 2016 we had 588 children in our care this is 90.5 per 10,000 child population, similar Councils had 96.3 per 10,000 child population in April 2016.

We have plans in place to manage the numbers of children who remain in care over the forthcoming year. Part of this work involves systematic use of various tools to help return young people to their birth families when possible, and having detailed exit plans for each

child into adoption or other permanence arrangements, benchmarking all data against our statistical neighbours and ensuring a full complement of staff to deliver the business.

There is a renewed focus on recruiting local foster carers, and providing support to children on the edge of care driven through Big Ticket Projects.

A new payment scheme for our foster carers has been implemented, with improved financial rewards for those who care for teenagers, a new marketing strategy is in place, post graduate students from the Nottingham Business School have recently worked with the fostering service and produced a report that we will use to inform our marketing as we move forward.

Our web site and social media communication such as twitter and Facebook will be a new focus; a specific campaign to recruit 25 carers for 25 teenagers has taken place in December 2015, initial responses have been positive.

Performance in relation to placement stability for children in care for more than two years is better than the target. We continue to ensure the recording of the wishes and feelings of children and young people and ensure that these have influence within the care planning process.

Performance against children in care key performance indicators is strongly monitored and in some areas out performs against statistical neighbours. One area for renewed focus against key performance indicators is in ensuring the health of children in care is robustly monitored and action taken where appropriate to avoid delays in dental checks and health assessments.

Work is underway to match children and young people to adopters at an earlier point in the adoption process to ensure a stable and permanent family home for all of our children in care. Improving adoption timeliness and permanence and tackling delay is a key local and national priority area, we have reduced the time of entering care to adoption for children with an adoption plan from 101 to 83 weeks in the last year.

In the 2015/16 financial year 47 children were adopted, 21 children were discharged as a result of a Special Guardianship Order. 21 children were discharged as the result of a Child Arrangement Order.

The reconfiguration of Nottingham City Council's Residential Services into Small Group Homes has served to support children and young people to have better placements and improved outcomes in a cost effective manner and ensured young people receive a quality service that keeps them safe. All of our registered children's homes were inspected under a new tougher OFSTED framework in the 2015/16 financial year; all were rated good or outstanding.

The leaving care team support 235 of our former children in care aged 18 - 21 into independence; we have a range of semi-independent settings that we use to assist young people during their transition, to their own accommodation.

Several of our Children in Care have obtained apprenticeships in the Council We currently have 10 care leavers at university; some young people are able to stay with their foster carer after their 18th birthday if they wish to do so we currently have 17 young people in so called staying put arrangements with foster carers that we fund.

There is strong collaboration between partners in Nottingham most notably between Health, Schools, Council, Police, Foster Carers and providers of residential accommodation. Levels of involvement in the criminal justice process of children in care aged 10-17 have fallen significantly in recent years and are now in line with similar Councils.

The Council has a strategy to support families and endeavours to ensure that children remain within immediate or extended family rather than entering Council care when it is safe to do so. The Edge of Care Intervention Hub, Targeted Family Support, Multi Systemic Therapy Team, and Priority Family Programme all work in a variety of ways to support children and families across the city.

East Midlands Shared Service (EMSS)

Leicestershire County Council (LCC) and Nottingham City Council (NCC) have been working in partnership to develop and implement an East Midlands Shared Service to support both transactional finance and HR administration/payroll processes. The shared service is supported by an implementation of the Oracle E-Business Suite. As is usual with this type of extensive system implementation, a great deal of focus has been applied to the financial control processes requiring review and redesign. Much of the risk for NCC has been mitigated by the fact that the Council was migrating to an existing LCC platform.

Latest Position

The EMSS Annual Report 15/16 was presented to the July meeting of this committee and included EMSS's strategic priorities and Transformation Programme.

Nottingham Express Transit (NET)

Nottingham City Council entered into a 22 year Private Finance Initiative concession contract with Tramlink Nottingham Limited ("Tramlink") in December 2011 to extend and operate Nottingham's tram network. The concession contract passes the key design, build and construction risks, to Tramlink, the private sector concession company.

Latest Position

Construction of NET Phase Two is complete. The NET concession contract, including project risks remaining with the City Council, is being managed by an experienced in-house project team and overseen by a dedicated Project Board.

Workplace Parking Levy (WPL)

The WPL is a levy which applies to all employers within the Nottingham City Council administrative boundary. Employers that provide any workplace parking places are required to get a WPL licence and those with 11 or more chargeable places, to pay a charge, from 1 April 2012. An important issue focuses on the ability of WPL to raise revenue to meet the Council's contribution to the NET Phase 2, the HUB and Link Bus network. The scheme was introduced on 1st October 2011 and charging commenced in April 2012.

Latest Position

There has been concern regarding the ability of WPL to meet funding requirements. The WPL income projections will be continually updated to reflect the latest information available from the WPL team as the income collection is still in its infancy. In the event that over the 23

year life of the NET Phase 2 contract, insufficient WPL income is generated, decisions may be made in respect of the ongoing contributions to the Link Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

Information Governance

Responsibility for information management risk and compliance rests with the Director of Resilience who acts as the Senior Information Risk Owner (SIRO), and is supported by Information Management Services.

Latest Position

Previous performance challenges associated with managing and processing personal and non-personal information requests have now been addressed and are in line with statutory expectations. Establishing a sustainable operating model to ensure performance is maintained is an area of focus and priority.

The Authority undertook its annual self-assessment against the Department of Health's (DoH) Information Governance Toolkit which assesses performance against DoH information governance policies and standards. The Authority achieved level 2 score in each of the 28 requirements, attaining an overall compliance score of 69%, and a satisfactory overall grade again this year.

The management of data incidents is carried out and managed by Information Management Services as per the Authority's data incident procedure. All data breach incidents are reported to the central service, consulting with the SIRO and Caldicott Guardian where appropriate. The number of data incidents reported increased during 2015-2016. Only one data breach incident was subject to reporting to the Information Commissioner, and after investigation no further action was taken by the regulatory body.

The Authority recognises the operational and strategic benefits to improving information management practices. As such the Authority has reviewed and restructured its corporate information management service to strengthen its ability to support the organisation to take forward and coordinate activities. The priority for the coming year is to establish an Information Management Assurance Framework ensuring that the Authority's legal obligations are maintained, risks are minimised and appropriate levels of availability, integrity and confidentiality of information are maintained. This will enable the Council to maximise the value of its information assets to drive improvements and gain efficiencies. Key development areas will include Information Management Strategy; Governance; Training; Monitoring and Performance.

Nottingham Revenues and Benefits

On 1st November 2014, Nottingham City Council entered into a 7-year partnership with Northgate Information Solutions for the provision of Revenues & Benefits Services. A unique element of the partnership was that Northgate are contractually-bound to sub-contract the work to Nottingham Revenues & Benefits Limited (NRB), a wholly-owned Nottingham City Council company.

Latest Position

Governance arrangements are now fully established and embedded, including meetings of the monthly Operations Board, monthly Transformation Board and quarterly Partnership

Board. Furthermore three councillors have been appointed to the NRB Ltd Board, whose inaugural meeting took place on 25th February 2016.

Information Technology

The Council commissioned a report considering several key areas where the Council's IT Service has run installed infrastructure to the end of its useful life with the view of identifying where investment is required to enable the Council to operate a technical environment that is fit for purpose.

Latest Position

A service improvement programme was developed to ensure that a continuing high level of IT service was delivered to support the work of the City Council, and help to ensure that services of sufficient quality are provided to citizens. The changes included in the programme have been successfully implemented and are now part of normal business activities

Robin Hood Energy

Robin Hood Energy is a private limited company wholly owned by Nottingham City Council and licensed to supply gas and electricity to domestic and non-domestic customers in England, Scotland and Wales. It is a not-for-profit company and began offering credit tariffs in May 2015 followed by prepayment tariffs and commercial tariffs.

Latest Position

Governance arrangements are now established including weekly management meetings and bi-monthly Board meetings. The Board comprises three Directors (all Councillors) and two more Councillors are shortly to join the Board of Directors.

EnviroEnergy

Enviroenergy is a private limited company wholly owned by Nottingham City Council. It both generates heat and power and sells heat and power to commercial and domestic customers in Nottingham. The company has recently launched additional commercial services, billing provision for a number of housing associations outside Nottingham and the development and sale of a heat monitor.

Latest Position

There has been a positive improvement in governance arrangements since the last audit report, all board papers are now posted on gov.com and constitutional services provide support for board meetings and support to the board of Directors. Improvement plans are still required for customer service, including investment in a new CRM system and replacement heat monitor to 4,000 domestic properties in Nottingham, timescale for this transition December-March 2017. A new appointment of Head of Plant Operations will bring new focus on infrastructure and the investment that's required to sustain a heat network for the next 30 years.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed:
Leader of the Council

Signed:
Chief Executive

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AUDIT COMMITTEE – 1 July 2016

Title of paper:	<u>INTERNAL AUDIT ANNUAL REPORT 2015/16</u>	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected:
Report author(s) and contact details:	Shail Shah Head of Audit and Risk 0115 8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note the audit work completed during the year.	
2	Note the Head of Audit and Risk's Annual Opinion.	
3	Select up to two audits from Appendix 2 for examination at the November meeting	

1 REASONS FOR RECOMMENDATIONS

- 1.1 This report outlines the work of the Internal Audit (IA) service at the end of the fourth quarter 2015/16. The report includes the Head of Audit and Risk's (HoIA) annual opinion on the effectiveness of the internal control systems operating within the City Council and its significant partnerships.
- 1.2 The Accounts and Audit Regulations 2015 state that local authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 1.3 The Audit Committee's Terms of Reference include receiving an annual report on the work of IA.
- 1.4 The Public Sector Internal Audit Standards (PSIAS) require the responsibility for the management of Internal Audit to be set with the Board. In practical terms this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City council.
- 1.5 The PSIAS require the HoIA to deliver an annual audit opinion and report which can be used to inform the Annual Governance Statement. The annual report should include a summary of the work supporting the opinion.

2 BACKGROUND

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

2.2 The coverage set out in the 2015/16 Audit Plan has been substantially achieved and the associated Performance Indicator targets have been met.

2.3 The assurance gained from this activity together with that gained from a review of other control and assurance mechanisms, has enabled the HoIA to give a reasonable assurance that the internal control systems are operating effectively within the Council and its significant partnerships.

2.4 **REVIEW OF THE YEAR**

2.4.1 **Reports to the Audit Committee**

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

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

2.5 IA Activity

The following outlines the IA work completed in 2015/16.

2.5.1 Local Performance Indicators

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

TABLE 2: PERFORMANCE OUTTURN				
Indicator		Target	Actual Year	Comments
1.	% of all recommendations accepted	95%	99%	Above Target
2.	% of high recommendations accepted	100%	98%	Reasons known, in tolerance
3.	Average number of working days from draft agreed to the issue of the final report assurance	8 days	3 days	Above Target
4.	Number of key / high risk systems reviewed	11	11	Target Achieved
5.	% of colleagues receiving at least three days training per year	100%	100%	Target Achieved
6.	% of customer feedback indicating good or excellent service	85%	96%	Above Target

2.5.2 Resources Used

Colleagues in post are professionally qualified and/or have extensive practical experience in the public sector. All colleagues participated in personal development reviews and received at least three days training according to business needs. The predicted outturn after adjustments for 2015/16 is in accordance with the budget.

2.5.3 Service Quality and Compliance with PSIAS

The service works to a Charter endorsed by the Audit Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. An independent review found the service has substantially complied with the principles contained in the PSIAS. Furthermore the service has met the requirements of the Accounts and Audit Regulations 2015 and associated regulations in respect of the provision of an IA service. During its deliberations the Audit Committee discussed the extent and quality of service being provided against alternative service delivery models and concluded that it was satisfied with the current arrangements.

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

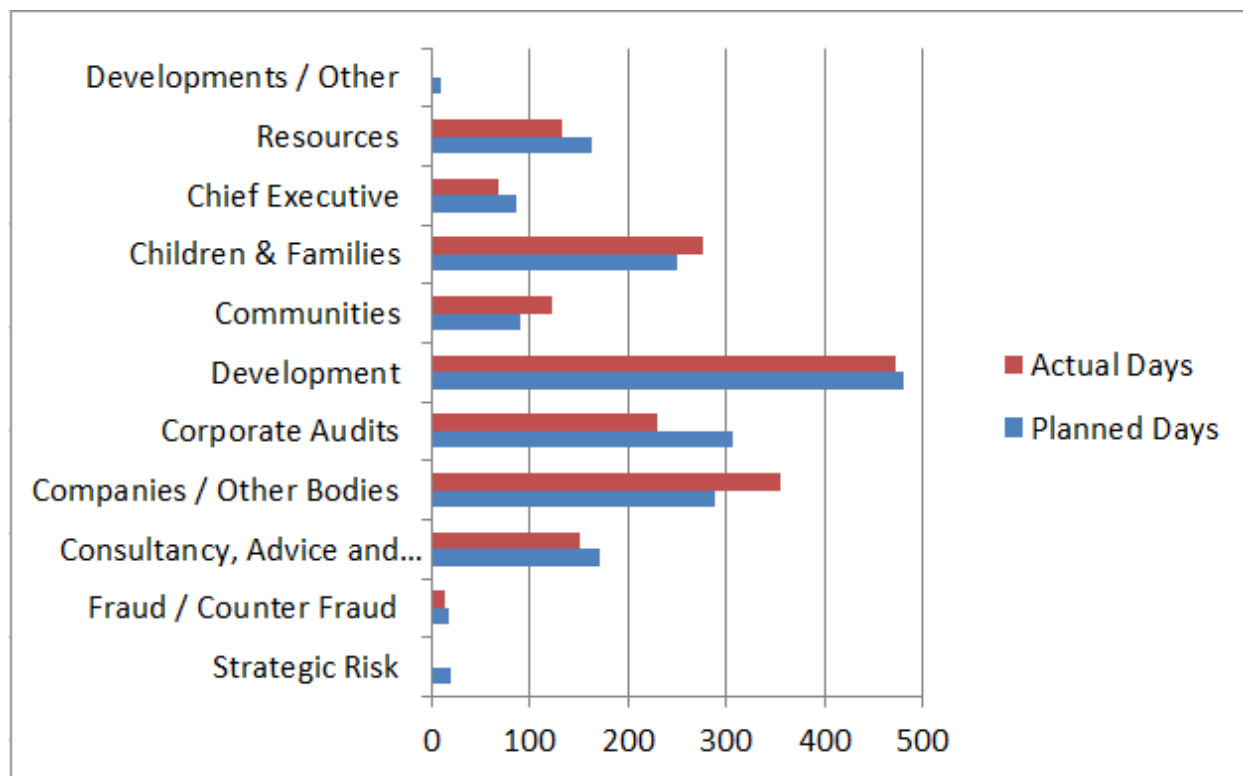
2.5.4 Audit Plan

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

Table 3: Plan Outturn		
Total Planned Days	Actual End of Year	Comments
2363	2249	95% Plan Days Achieved – within accepted practice

The final outturn for 2015/16 is given in **Table 3** above and the audit coverage across departments and other service areas is shown in **Diagram 1** and **Appendix 3** gives a summary of the outturn against planned resources. This diagram illustrates that there was no significant variation from plans endorsed by the Committee.

Diagram 1 Internal Audit Plan Against Actual 2015/16



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

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

2.5.5 Recommendations analysis by risk

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

TABLE 4: RECOMMENDATIONS ACCEPTED DURING 01/01/2016 TO 31/03/2016				
	2015/16		January to March	
	All	High	All	High
Total recommendations made	305	125	67	23
Rejected	6	2	1	1
Total recommendations accepted	299	123	66	22
Percentage accepted	98%	98%	99%	96%

2.5.6 Level of Assurance Given in Audit Reports

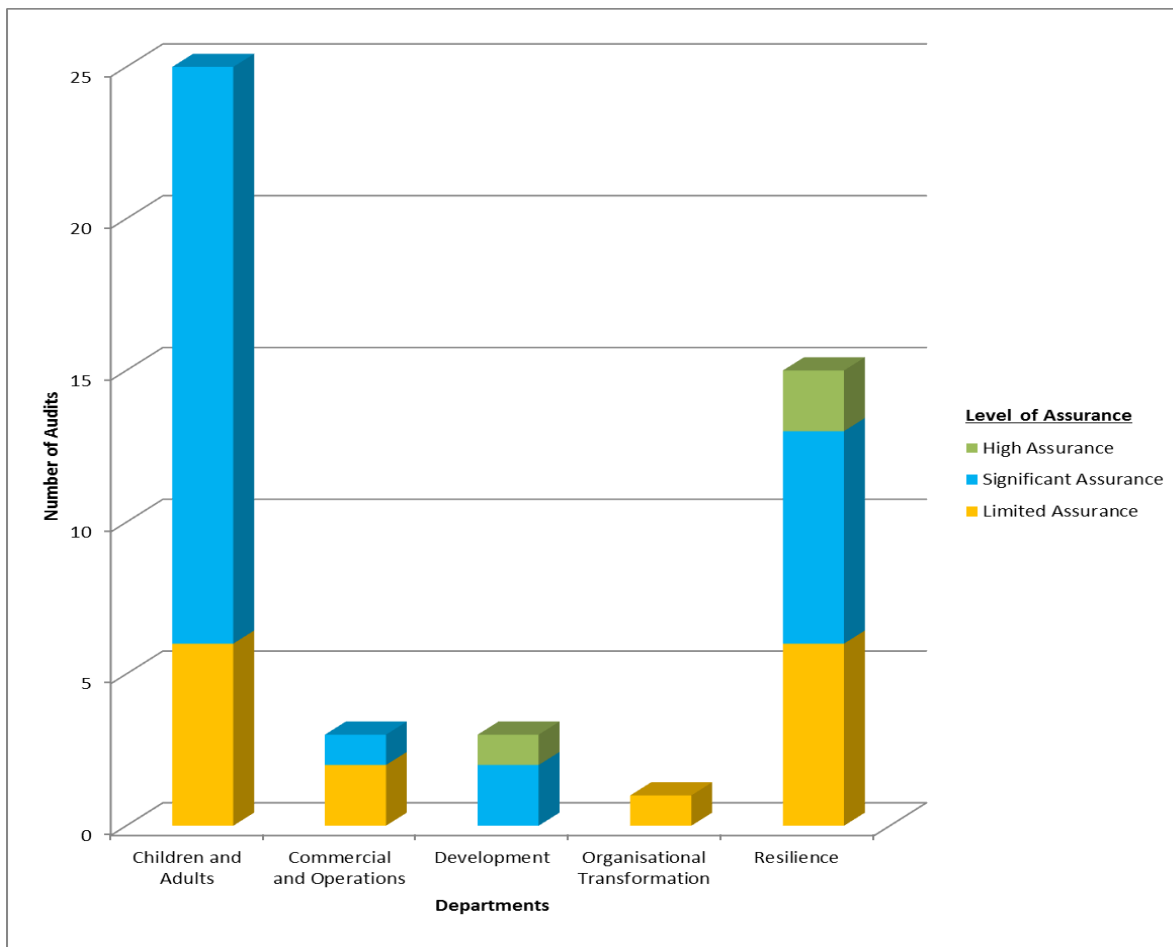
The committee sees a list of all audit reports, level of assurance and the associated high risk recommendations as part of its annual work programme. Below is a summary of the work reported in the year.

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

TABLE 5 : DEFINITIONS OF ASSURANCES GIVEN IN IA REPORTS	
Level of Assurance	Definition
High	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
Significant	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.
Limited	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.
No	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed.

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

Diagram 2: IA assurances given by department 2015/16



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

2.5.7 Recommendations made

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

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

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

Diagram 3: Progress on All Recommendations

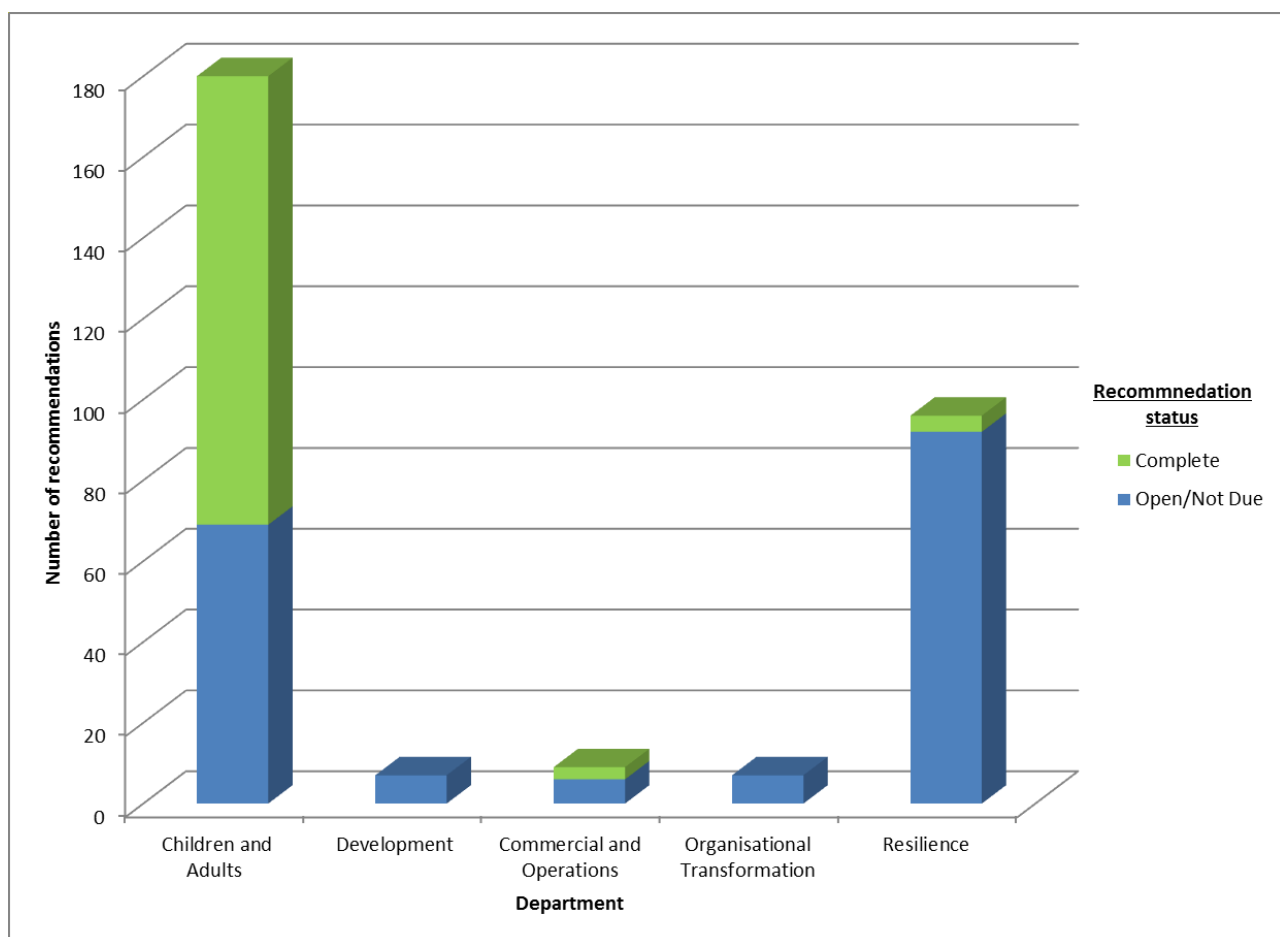
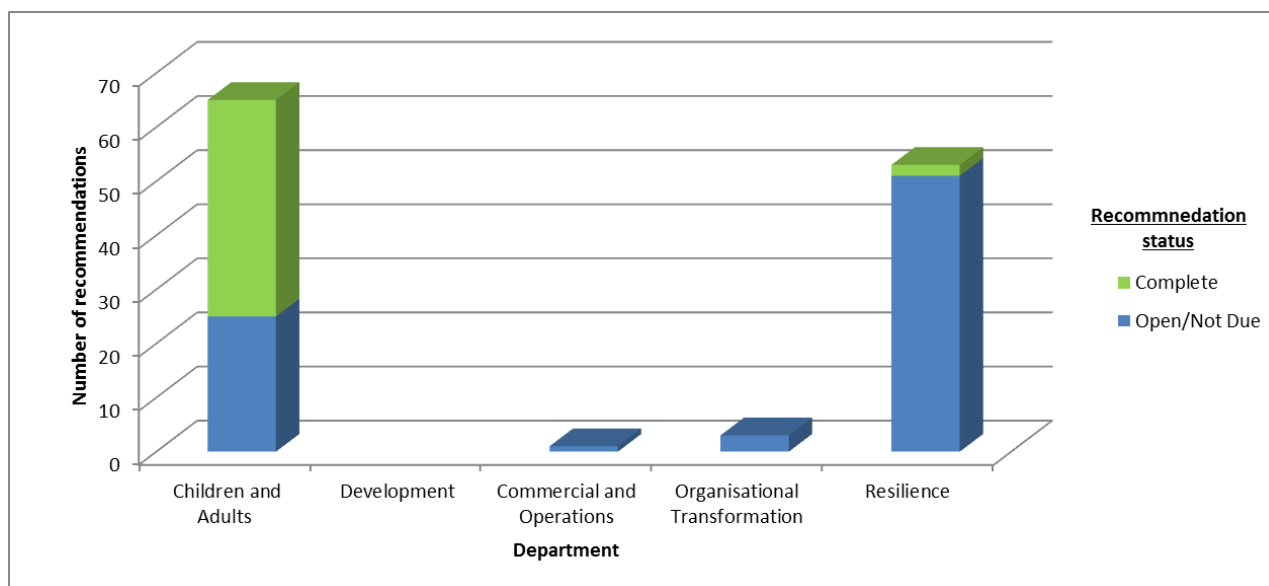


Diagram 4 illustrates the position on high risk recommendations made, analysed by client directorate. The Committee sees all reports issued and the associated high risk recommendations as part of its quarterly review of IA performance. Systems are in place to monitor these recommendations, and those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

Diagram 4: Progress on High Risk Recommendations



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

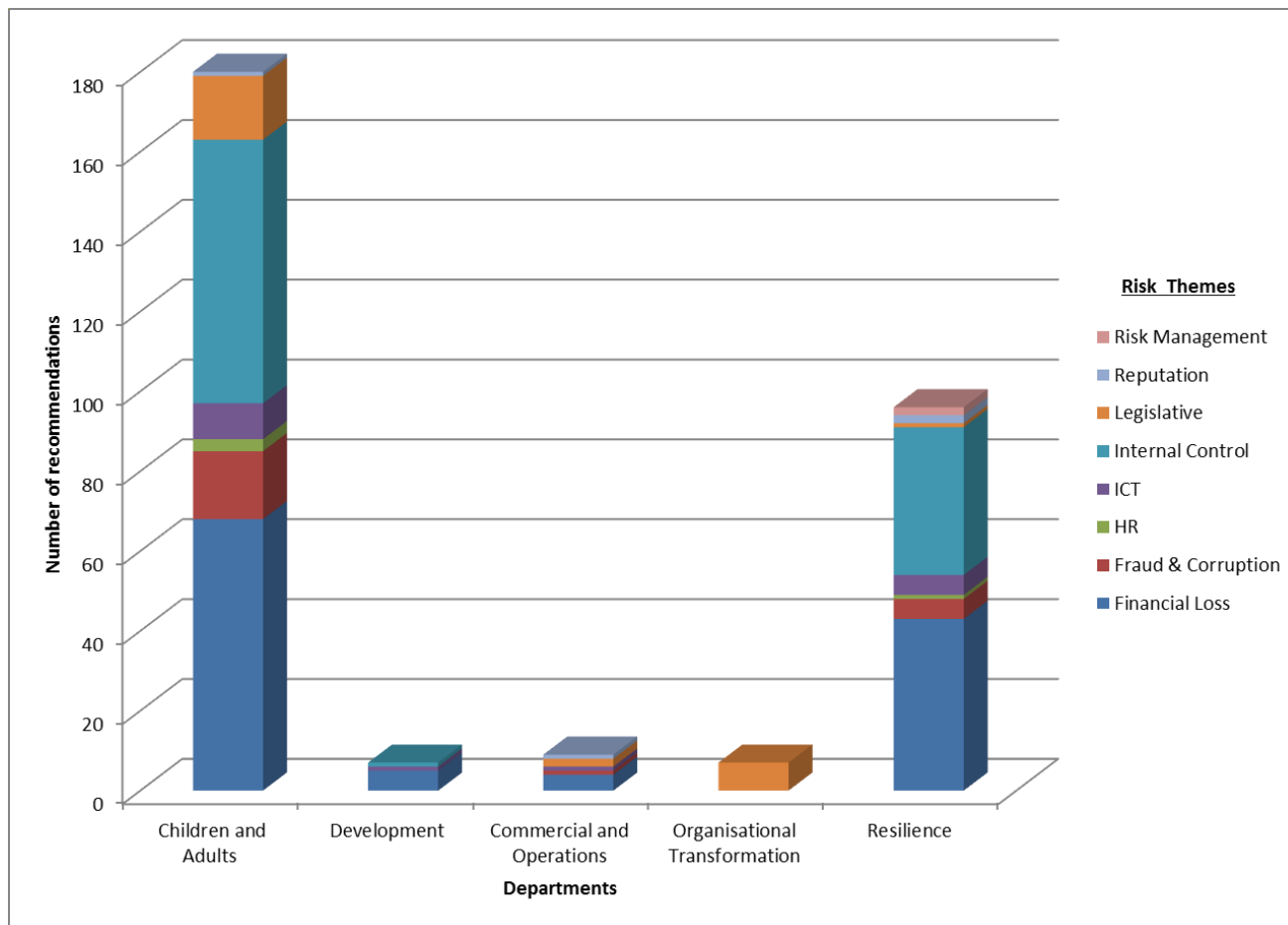
2.5.8 Risk Themes

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

Diagram 5 illustrates the distribution of the main themes of the recommendations made. The diagram shows that a similar pattern exists across departments, the main themes pertaining to the financial loss and the operation of internal controls.

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

Diagram 5: Risk Themes



2.6 Head of Audit’s Annual Opinion 2015/16

The PSIAS require the HoIA to give an opinion and report to support the City Council’s Annual Governance Statement. Corporate Directors are responsible for ensuring that proper standards of internal control operate within their directorates. IA reviews these controls and gives an opinion in respect of the systems and processes put in place. The audit work concludes with a report detailing the findings and giving an overall level of assurance.

The IA service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee. The 2015/16 Audit Plan has been completed in accordance with the PSIAS and other professional standards applicable to the service. The IA service has undertaken reviews of the internal control procedures in respect of the key systems and processes of the Council and its partners, where appropriate. The service has operated within professional standards as PSIAS.

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

Throughout 2015/16 the HoIA has continuously reviewed the significant challenges and risks associated with the Council’s operations and has allocated the necessary resources, via the

audit plan, to form his opinion on the Council's governance arrangements. In forming his opinion the HoIA has reviewed all the IA reports issued in 2015/16 and drawn upon available external sources of assurance from independent review bodies and internal assurance mechanisms to help him identify and assess the key control risks to the Council's objectives.

The HoIA has concluded that although no systems of control can provide absolute assurance, nor can IA give that assurance, he is satisfied that, on the basis of the audit work undertaken during the 2015/16 financial year, there have been no significant issues (as defined in the CIPFA Code of Practice) reported by IA. Furthermore, on the basis of the audit work undertaken during the 2015/16 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a reasonable level of assurance can be given that internal control systems are operating effectively within the Council, its significant partners and associated groups.

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

3.1 None.

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2015
- Audit Plan 2015/16
- CIPFA SOLACE Delivering Good Governance in Local Government
- Public Sector Internal Audit Standards 2012

List of Appendices

Appendix 1 List of all reports issued during 1st January 2016 to 31 March 2016 with High Priority Recommendations



Appendix 2 List of final Audit reports issued 1st January 2016 to 31 March 2016

Appendix 3 Summary Internal Audit Plan / Outturn 2015/16

Summary of Reports with High Priority Recommendations

Deputyship 2015

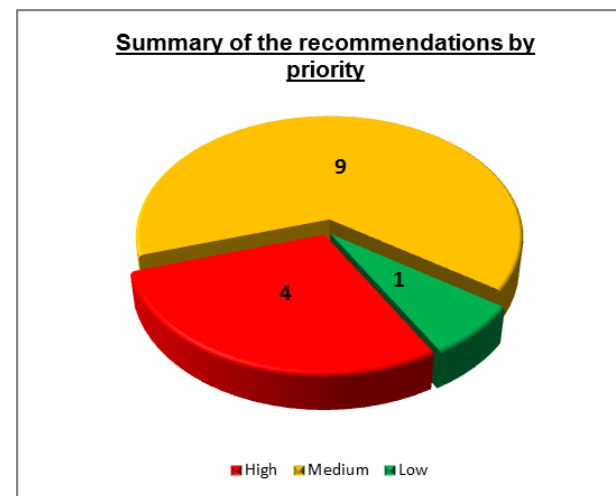
Executive Summary

<p>Organisation: Nottingham City Council Directorate: Children and Adults</p>	<p>Overall Opinion: Limited Assurance</p>		<p>Direction of Travel: Overall, there has been no change to the level of controls that are in operation.</p> 
<p>Previous reviews: Deputyship 2009-2010 Deputyship 2011-2012</p>	<p><u>Scope and Approach:</u> The scope of this review considered the following:</p> <ul style="list-style-type: none"> ❖ The process by which deputyship is obtained and the recording mechanisms surrounding this process, ❖ The process by which income and expenditure is recorded, ❖ The reconciliation of income and expenditure ❖ The process by which property is sold (refer to the sale of houses / flats etc, the proceeds of which are used to help finance the needs of the individual client) ❖ IT security arrangements and access controls, ❖ The charging mechanism to clients, for providing the deputyship service. 		

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High Priority Recommendations

- R3 Key tasks should be clearly documented and where appropriate other colleagues trained to take over should the need arise.
- R6 (a) Undertake an exercise to identify the total number of cases that exist, review each case and clear as many deceased client accounts as possible.
(b) Regular reviews of these accounts should be undertaken to ensure that there is no unauthorised movement of funds thus safeguarding the estate of the deceased.
- R7 There should be regular reviews of all relinquished cases where balances are held to ensure that funds are returned to either the citizen or an individual who is acting on the citizens behalf.
- R8 Whilst we appreciate that the team is small in number, management should consider the potential for introducing an independent reconciliation process.



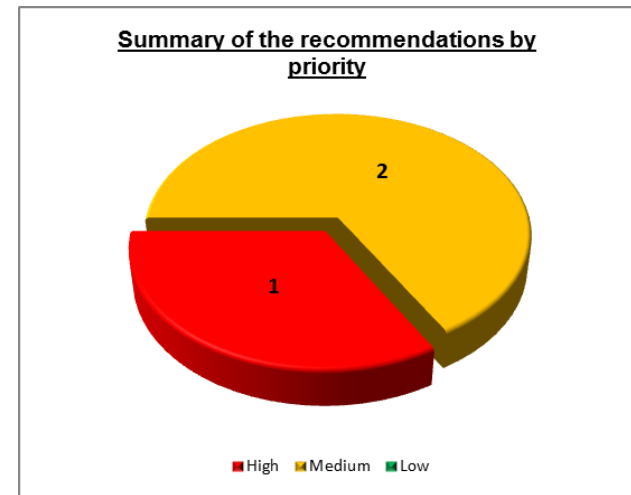
Fostering & Adoption 2015-16

Executive Summary

Organisation: Nottingham City Council Directorate: Children and Families Previous review: Fostering and Adoption 2014-15 (Payments).	Overall Opinion: Limited Assurance		Direction of Travel: This area of Fostering and Adoption has not been subject to any prior review by internal Audit 
	<u>Scope and Approach:</u> This review considered the following aspects of the service: <ul style="list-style-type: none">• Assessment of placements• Changes in circumstance• Timeliness for reviews• Application and review of temporary placements		


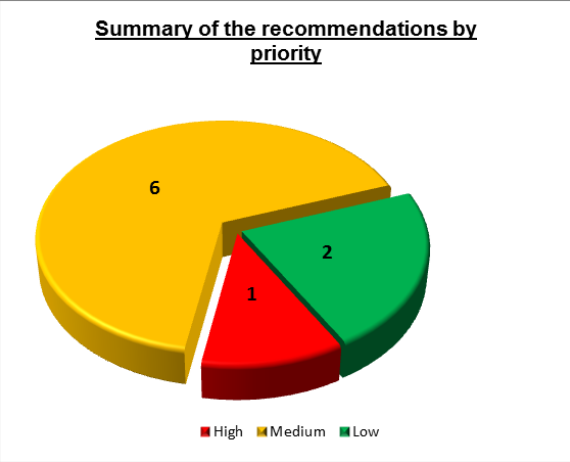
High Priority Recommendations

R3 Training needs exist for Social Workers in respect of both Connected Persons criteria and processes and the input of SGO records onto CareFirst.



Burford Primary and Nursery

Executive Summary

<p>School: Burford Primary & Nursery</p> <p>Date of Review: 1st February 2016</p> <p>Summary: We consider that most of the arrangements in place within the school are satisfactory and provide sound systems of control. Our review identified one particular area where improvement could be made; inputting the budget to FMS.</p>	<p>Overall Opinion</p> <p>Significant Assurance</p> <p>Direction of Travel:</p> <p>Date of last report 4 July 2012</p>									
<p>Scope and Approach: The scope of this review was limited to;</p> <p>Leadership & Governance, People Management, Policy & Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Single Status, Income</p>										
<p>High Priority Recommendations:</p> <p>03 The budget figures agreed by the Governors should be input into FMS6.</p>	<p><u>Summary of the recommendations by priority</u></p>  <table border="1"><caption>Summary of the recommendations by priority</caption><thead><tr><th>Priority</th><th>Count</th></tr></thead><tbody><tr><td>High</td><td>1</td></tr><tr><td>Medium</td><td>6</td></tr><tr><td>Low</td><td>2</td></tr></tbody></table>		Priority	Count	High	1	Medium	6	Low	2
Priority	Count									
High	1									
Medium	6									
Low	2									

Forest Fields Primary and Nursery

Executive Summary

School : Forest Fields

Date of Review: 11 January 2016

Summary: We consider that the financial procedures in place at the school represent good practice and provide sound systems of internal control. Only one recommendation relating to the minuting of financial matters has been classed as a high priority and the number of recommendations and degree of importance is low in comparison to other schools audited.

Overall Opinion

Significant Assurance

Direction of Travel:

This is a new piece of work therefore no judgements can be made.



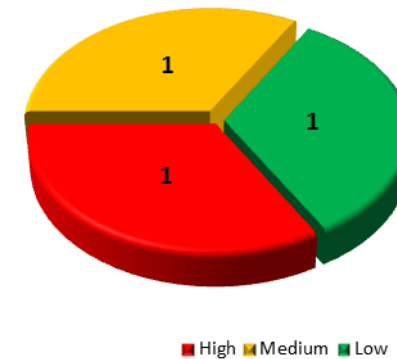
Scope and Approach: The scope of this review was limited to;

Leadership & Governance, People Management, Policy & Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income & Single Status

High Priority Recommendations:


01 Draft minutes should be checked to ensure discussions and decisions relating to financial matters are recorded effectively in minutes.

**Summary of the recommendations
by priority**



Southwold Primary School and Early Years Centre

Executive Summary

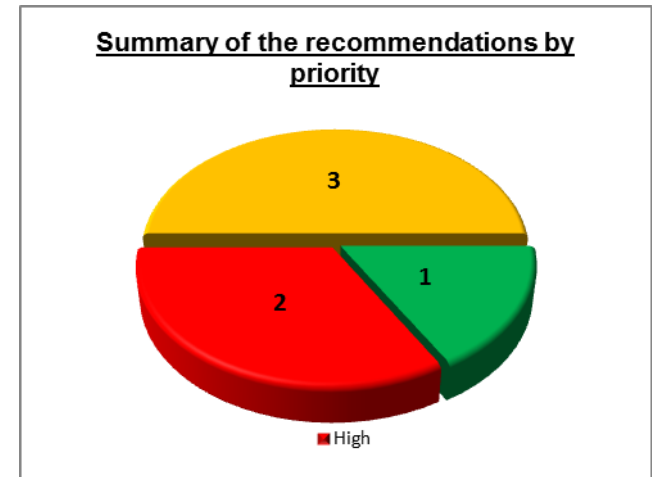
<p>Company : Southwold Primary and Early Years Centre</p> <p>Date of Review: 18th January 2016</p> <p>Summary: We consider that most of the arrangements in place within the school are satisfactory and provide sound systems of control. Our review identified two particular areas where improvements could be made. These include the certification of bank reconciliations and the recording of breakfast Club income.</p>	<p>Overall Opinion</p> <p>Significant Assurance</p> <p>Direction of Travel:</p> <p>This is a new piece of work therefore no judgements can be made.</p>	
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Scope and Approach: The scope of this review was limited to;

Leadership & Governance, People Management, Policy & Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Single Status

High Priority Recommendations

- R3. The Head should sign to certify Rec1s once prepared by the SBM.
- R6. A new system for recording and reconciling breakfast club payments should be created. Monies received by the office should be reconciled to a register recording attendance and payment. When staff present income to the office they, and the person receiving the monies should sign to record the amount.



William Booth Primary and Nursery School

Executive Summary

School : William Booth Primary & Nursery

Date of Review: 26 February 2016

Summary: We consider that most of the arrangements in place within the school are satisfactory and provide sound systems of control. Improvements in the overall administration of the school can be seen, since the new Office Manager has taken up post.

Our review identified some areas where improvements could be made in particular to Single Status and the reconciliation of cash. Due to these recommendations being classed as a high priority, it is important that these are implemented within the next 3 months.

Overall Opinion

Significant Assurance

Direction of Travel:

Date of last report 11 September 2012.



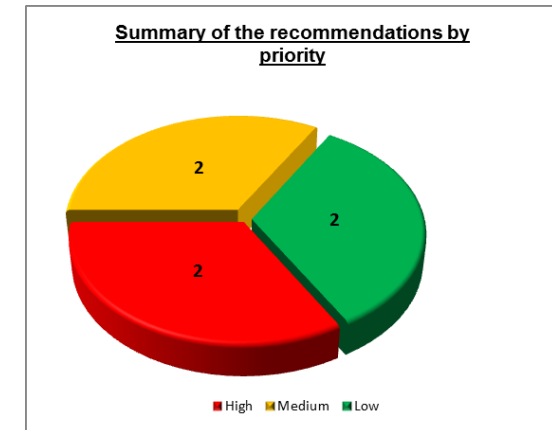
Scope and Approach: The scope of this review was limited to;

Leadership & Governance, People Management, Policy & Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Single Status

High Priority Recommendations:



R5. Annual Entitlement should be calculated for staff and monitored via an Annual Leave Card.

R6. Cash for banking should be reconciled then checked by an independent person.



PCI Compliance 2015

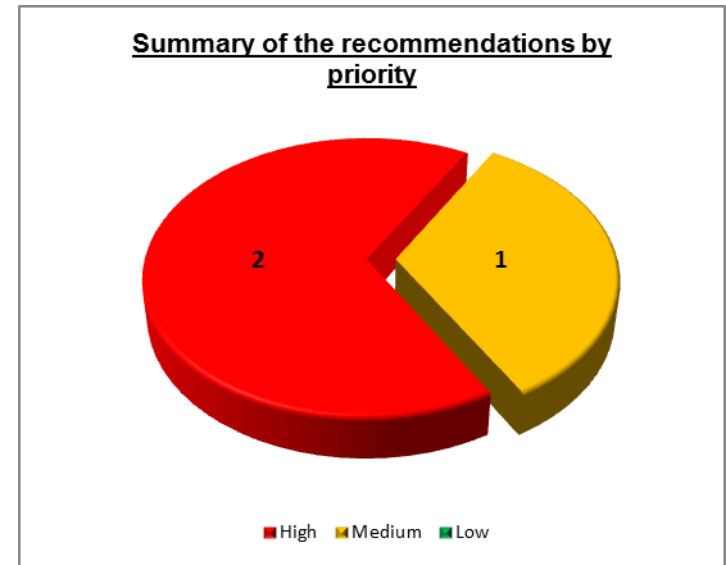
Executive Summary

Organisation: Nottingham City Council Directorate: Resilience Previous reviews: None	Overall Opinion: Limited Assurance		Direction of Travel: This area has not been subject to previous review. 
Scope and Approach: To review the process by which PCI compliance is achieved			

High Priority Recommendations



- R2 A firm proposal and business case should be developed to replace the existing arrangements with a more secure means of accepting payments over the telephone.
- R3 A formal policy should be communicated to all customer-facing colleagues who may receive payments via the telephone.

In addition, where this function is undertaken by external organisations, who currently use NCC's facilities, then clauses should be included within the contracts specifying the penalties for breaching the policy



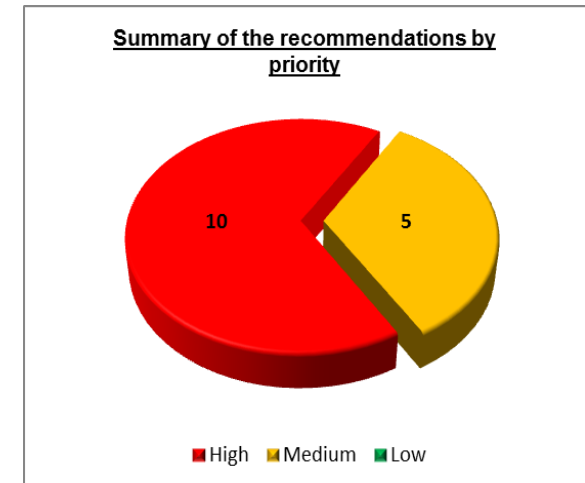
NCC - AR Testing & Reporting 2014-15

Executive Summary

<p>Organisation: Nottingham City Council Department: Resources – Strategic Finance</p> <p>Previous review: NCC AR Report – May 2014</p>	<p>Overall Opinion</p> <p>Limited Assurance</p>		<p>Direction of Travel</p> <p>Aspects of this have been reviewed and reported previously, but there has been no improvements made.</p> 
	<p>Scope and Approach: The agreed scope covered the processes for: Raising Income Debit, Receiving Income (including suspense items), Recovery of Income, Writing off debts, Reporting</p>		

High Priority Recommendations

- R1 Financial Regulations should be re-drafted to take account of third parties being involved within the debt collection process.
- R2 The City Council should nominate an internal process expert to act as a liaison between NCC and EMSS to monitor performance and to control systems development and changes in this area.
- R3 NCC should develop in conjunction with EMSS a Service Level Agreement that sets out roles, responsibilities, and NCC expectations as to performance.
- R4 Consideration should be given to adapting Debt Management Strategy, based upon LCC best practice, as a starting point for developing a strategy to manage all debt due to the Council.
- R5 Clarity is required for both EMSS and Heads of Service to ensure that all the debt is effectively collected; this should then be built into any SLA with EMSS.
- R7 New management reports need to be developed to provide Heads of Service detailed information about their level of debt and the recovery stages achieved.
- R8 All data should be passed to the consolidated debt system. (Compliance with the 2005 Debt Management Policy)
- R9 All debt over 6 years old should be formally reviewed in conjunction with EMSS and Nottingham Revenues and Benefits Ltd to decide which debts are no longer cost effective to collect and need to be written off.
- R14 Those areas raising bulk invoices should be reviewed in order that the process may be streamlined and become more efficient with the possibility of introducing feeder systems from source records.
- R15 An urgent review is required to clear these items to ensure that customer accounts are accurate and complete.



Appendix 2

Final Audit Reports issued 1st January to 31st March 2016

Department	Division	Activity Title	Audit Assurance	Recommendations Accepted			
				High	Medium	Low	
Children and Adults	Adult Social Care	Deputyship 2015	Limited Assurance	4	9	1	
	Adult Social Care Total			4	9	1	
	Children's Integrated Services	Children's Placements 2015-16		Limited Assurance	0	6	1
		Fostering & Adoption 2015-16		Limited Assurance	1	2	0
		Troubled Families		Grant	0	0	0
	Children's Integrated Services Total			1	8	1	
	Schools	Burford Primary and Nursery		Significant Assurance	1	6	2
		Forest Fields Primary and Nursery		Significant Assurance	1	1	1
		Southwold Primary School and Early Years Centre		Significant Assurance	2	3	1
		William Booth Primary and Nursery School		Significant Assurance	2	2	2
	Schools Total			6	12	6	
	Children and Adults Total			11	29	8	
Resilience	Strategic Finance	PCI Compliance 2015	Significant Assurance	2	1	0	
		NCC - AR Testing & Reporting 2014-15	Limited Assurance	10	5	0	
	Strategic Finance Total			10	5	0	
Resilience Total			12	6	0		
Grand Total				23	35	8	

2015/16 INTERNAL AUDIT PLAN VERSUS OUTTURN

Audited Area	Planned Days	Actual Days
Strategic Risk	20	0
Fraud / Counter Fraud	18	14
Consultancy, Advice and Support	170	151
Companies / Other Bodies	288	355
Corporate Audits	307	229
Development	480	473
Communities	90	122
Children & Families	250	277
Chief Executive	85	67
Resources	162	133
Developments / Other	10	0
Total	2363	2249

AUDIT COMMITTEE - 01 July 2016

Title of paper:	EMSS Annual Report 2015/2016	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Ext 64245 Shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note the Head of Internal Audit's opinion contained within the EMSS Annual Report 2015/2016 attached as Appendix 1 to this Report.	

EXEMPT INFORMATION:

Appendix 1 to this report is exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 because it contains information relating to the financial or business affairs of a particular person (including the authority holding that information) and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. It is not in the public interest to disclose this information because of the sensitive nature of the business affairs referred to in the report. For the avoidance of doubt, this exemption applies such that the Appendix is exempt from publication by both Nottingham City and Leicestershire County Councils.

1 REASONS FOR RECOMMENDATIONS

- 1.1 This Committee's Terms of Reference include receiving reports on the work undertaken by Nottingham City Internal Audit for EMSS. Consequently and in accordance with an agreed protocol Appendix 1 contains the EMSS annual report which includes the annual opinion of the Head of Internal Audit.

2 BACKGROUND

- 2.1 Nottingham City Council and Leicestershire County Council formed a partnership (EMSS) in 2011 to deliver HR, payroll and finance transactional shared services. Both organisations agreed that Nottingham City Internal Audit would provide the internal audit services to EMSS.

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 None.

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