



**NOTTINGHAM CITY COUNCIL**  
**AUDIT COMMITTEE**

**Date:** Friday, 22 June 2018

**Time:** 10.30 am

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

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

**Corporate Director for Strategy and Resources**

**Governance Officer:** Zena West **Direct Dial:** 0115 876 4305

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|-----------|--|-----------|
| <b>1</b>  | <b>APPOINTMENT OF VICE CHAIR</b>   |           |
| <b>2</b>  | <b>APOLOGIES FOR ABSENCE</b>   |           |
| <b>3</b>  | <b>DECLARATIONS OF INTEREST</b>  |           |
| <b>4</b>  | <b>MINUTES</b><br>To confirm the minutes of the meeting held 27 April 2018   | 3 - 8     |
| <b>5</b>  | <b>NOTTINGHAM CITY COUNCIL AUDIT PLAN 2017/18</b><br>Report of External Auditors - KPMG                            | 9 - 36    |
| <b>6</b>  | <b>STATEMENT OF ACCOUNTS PROGRESS</b><br><a href="#">Link to Draft Statement of Accounts</a>                       | Verbal    |
| <b>7</b>  | <b>TREASURY MANAGEMENT 2017/18 ANNUAL REPORT</b><br>Report of the Director of Strategic Finance                    | 37 - 54   |
| <b>8</b>  | <b>INTERNAL AUDIT ANNUAL REPORT 2017/18</b><br>Report of the Director of Strategic Finance                         | 55 - 88   |
| <b>9</b>  | <b>INTERIM ANNUAL GOVERNANCE STATEMENT 2017/18</b><br>Report of the Director of Strategic Finance                  | 89 - 112  |
| <b>10</b> | <b>AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME</b><br>Report of the Director of Strategic Finance | 113 - 122 |

- 11 AUDIT COMMITTEE ANNUAL REPORT 2017/2018** 123 - 138  
Report of the Chair of Audit Committee (2017/18)
- 12 FUTURE MEETING DATES**  
To agree to meet on the following Fridays at 10:30am:
- 20 July 2018
  - 28 September 2018
  - 30 November 2018
  - 22 February 2019
- 13 EXCLUSION OF THE PUBLIC**  
To consider excluding the public from the meeting during consideration of the remaining item in accordance with Section 100A(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
- 14 EMSS ANNUAL REPORT 2017/2018** 139 - 144  
Report of the Director of Strategic Finance

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](http://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 LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG on 27 April 2018 from 2.01 pm - 3.50 pm**

#### **Membership**

##### Present

##### Absent

Councillor Sarah Piper (Chair)  
Councillor Malcolm Wood (Vice Chair)  
Councillor Leslie Ayoola  
Councillor Rosemary Healy  
Councillor John Hartshorne  
Councillor Anne Peach  
Councillor Andrew Rule  
Councillor Adele Williams  
Councillor Steve Young

#### **Colleagues, partners and others in attendance:**

Peter Carroll	- Head of Portfolio Investment and Development
Tony Crawley	- KPMG External Auditor
Glyn Daykin	- Senior Accountant Treasury Management
Sue Risdall	- Finance Analyst
David Rosselli	- Policy and Performance Officer
James Schrodell	- Policy and Performance Manager
Shail Shah	- Head of Audit and Risk
Kevin Shutter	- Director of Strategic Asset and Property Management
John Slater	- Group Auditor
Thomas Tandy	- KPMG External Auditor
Zena West	- Governance Officer

#### **42 APOLOGIES**

Jane O'Leary, Insurance and Risk Manager

#### **43 DECLARATION OF INTEREST**

None.

#### **44 MINUTES OF AUDIT COMMITTEE, 24 NOVEMBER 2017**

The minutes of the meeting held 24 November 2017 were agreed as a correct record and signed by the Chair.

#### **45 MINUTES OF AUDIT COMMITTEE, 22 JANUARY 2018**

Subject to the following change being made, the minutes of the meeting held 22 January 2018 were agreed as a correct record and signed by the Chair:

Change minute 41e from “There has been some criticism of the Non-Treasury Investment Strategy, that it is reliant on commercial and retail property outside the greater Nottingham area. The committee felt that a greater level of scrutiny should be in place around investment decisions” to “There have been some concerns raised following the report by Centre for Cities of the Non-Treasury Investment Strategy, that investments outside of Nottingham should be made in Brexit resilient areas. The committee felt that a greater level of scrutiny should be in place around investment decisions”

#### **46     EXCLUSION OF THE PUBLIC**

**RESOLVED to exclude the public from the meeting.**

#### **47     INVESTMENT REVIEW**

Peter Carroll, Head of Portfolio Investment and Development, and Kevin Shutter, Director of Strategic Asset and Property, gave a presentation on the City Council’s investments properties to the Committee, as per the attached exempt presentation, circulated with the first distribution of the minutes.

**RESOLVED to note the exempt information, and thank Peter Carroll and Kevin Shutter for the presentation.**

#### **48     RE-ADMISSION OF THE PUBLIC**

**RESOLVED to re-admit the public for the remaining agenda items.**

#### **49     TREASURY MANAGEMENT 2018/19 STRATEGY AND REVISION TO 2017/18 DEBT REPAYMENT STRATEGY**

Glyn Daykin, Senior Accountant Treasury Management, presented the Treasury Management 2018/19 Strategy for scrutiny and noting, highlighting the following points:

- (a) the borrowing strategy is for an anticipated at £103,000,000 borrowing requirement in 18/19, the strategy has some flexibility on the mix and timing of new loans due to the volatility in forecast interest rates and the UK economy;
- (b) the investment strategy reflect this as well, with balances of around £30,000,000 due to a difference between long and short term interest rates, limited to £10,000,000 per counterparty. All counterparties are classed as high credit rating, with a minimum rating of A- across the 3 reference agencies;
- (c) appendix 3 to the report shows the prudential indicators;
- (d) there has been a revision to last years’ Minimum Revenue Provision (MRP) policy, as per the presentation (distributed with the original publication of the minutes).

There followed a number of questions and comments from the Committee, and some additional information was provided:

- (e) the rationale behind what is considered prudent involves looking at which assets are on the balance sheet and making sure they have a useful life over the changes required;
- (f) the figures will go from £4,100,000 to £80,000 per year and then revert to a straight line figure: essentially an initial reduction and then an increase for the remainder of the term;
- (g) around £26,000,000 is paid on MRP per year as a whole, the figures in the report refer only to 'Supported Borrowing' element of MRP relating to the pre-2007 debt;
- (h) Committee members felt that it might be useful to add MRP to scheduled training for Audit Committee members later this year;
- (i) the treasury code specifies how to calculate the ratio, looking purely at council tax and revenue support grant, which are dwindling and being replaced with other revenue streams. The total income stream is not shown as it's not used for the calculations. Councillors requested further detail on total income be distributed to them;
- (k) the approved MRP policy each year is based on borrowing at the time going forward, it wouldn't affect how much had been paid in previous years;
- (l) the external auditors requested that it be noted that there will be a big future impact on the MRP to be borne in mind for future administrations.

**RESOLVED to:**

- (1) adopt the current Treasury Management Policy Statement, as contained within appendix 5 to the report;**
- (2) note the contents of the Treasury Management Strategy for 2018/19 (appendix 1 to the report), the Investment and Borrowing Strategies for 2018/19 (appendix 1), and the Prudential Indicators and limits for 2016/17 to 2020/21 (appendix 3);**
- (3) note the contents of and the amendment to the Strategy for Debt Repayment / Minimum Revenue Provision for 2017/18, as contained within appendices 4 and 10.**

**50 CORPORATE PERFORMANCE - UPDATE**

James Schrodell, Policy and Performance Manager, and David Rosselli, Policy and Performance Officer, presented a report on Corporate Performance to the Committee, and they shared performance information from the report. The update related to quarter three, although some changes have occurred in the last three weeks. The Performance team has recently merged with the Policy team, with a corresponding reduction in resource from 3.5 full time equivalent colleagues to 1.5. Processes are now being streamlined, with some progress already evident with a

change of software. Each department's performance information is formally taken to their Leadership Team, and to the Corporate Leadership Team and the wider Executive. Departmental internal performance management runs parallel to corporate performance monitoring, and there are multiple opportunities to flag issues less formally.

**RESOLVED to note:**

- (1) the performance information in relation to the progress made against the priorities set out in the Council Plan 2015-19 as set out in the appendices to the report;**
- (2) the progress made in revising the current Corporate Performance Management Framework.**

**51 EXTERNAL AUDIT UPDATE**

Tony Crawley and Tom Tandy, from external auditors KPMG, gave an update to the Committee on the EU Public Interest Entity (EU PIE) and its implications for Nottingham City Council. This does not usually affect local authorities, but has affected Nottingham City Council as there £600,000 of debt listed on the London Stock Exchange which could be traded. It will impact on how KPMG reports to Nottingham City Council and a long form audit report will be required, with rules designed for the private sector adapted to fit the circumstances of a local authority. There will be an additional fee for the extra detail on the work.

They also gave an update to the Committee on the Audit Plan 2017/18, which was written for the February 2018 meeting of Audit Committee (which was cancelled due to its proximity to a by-election) and a progress report and technical update. They explained that the plan would need to be updated for the EU PIE implications, for example the materiality would reduce from the current level of 1.2% to 1%. They highlighted the following points:

- (a) pages 64-65 of the agenda pack show a summary of significant risks, including valuation of PPE, Pension Liabilities, and an advanced timetable for the production of financial statements. Further information is contained within the plan regarding individual risk;
- (b) as set out on page 83 of the agenda pack, there are no independence or objectivity issues to report;
- (c) procurement services provided by the Council to the Midlands Engine do not count towards the non-audit fee thresholds, as determined by PSAA.
- (d) page 91 of the agenda pack shows general updates on the external audit. KPMG visited the City Council in February 2018, attempting to bring some of the final accounts work forward given the tighter deadlines. The visit went well, with good cooperation between KPMG and the City Council. There is a lot of work still to do on both sides over the next couple of months. In addition there was still work to do to complete the 2016/17 Housing Benefit claim, stemming from an increase to the number of cases being tested as a result of the errors

which occurred last year and a high level of errors in this year's samples. The qualification letter is being finalised;

- (e) page 98 of the agenda pack outlines the statement from the Chartered Institute of Public Finance and Accountancy regarding Northamptonshire County Council issuing a 'section 114 notice'. Page 99 of the agenda pack comments on the financial sustainability of local authorities in 2018 and the tough challenges faced by all.

**RESOLVED to note the information within the reports and thank Tony Crawley and Tom Tandy for their update.**

**52     EXTERNAL AUDIT QUESTIONS TO THOSE CHARGED WITH GOVERNANCE 2017/2018**

**RESOLVED to note the proposed response to be given by the Chair of the Audit Committee to the External Auditor, as contained within appendix 1 to the report.**

**53     REPORTING OF CORPORATE RISK MANAGEMENT FRAMEWORK, STRATEGY AND RISK REGISTER**

Shail Shah, Head of Audit and Risk, updated the Committee on the reporting of Corporate Risk Management Framework and Strategy, and the Risk Register.

**RESOLVED to:**

- (1)     agree the Risk Management Framework and Strategy for 2018/19;**
- (2)     note the risk identified on the quarter three and quarter four Corporate Risk Register.**

**54     ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2016/17 AND PROCESS FOR PRODUCING THE 2017/18 STATEMENT**

Shail Shah, Head of Audit and Risk, presented a report to the Committee on the Annual Governance Statement, detailing progress made to date on issues reported for 2016/17 at the September meeting, and the process for producing the 2017/18 statement. To coincide with production of the Statement of Accounts the 2017/18 final Annual Governance Statement will be reported in July, with an update later in the financial year. An interim Annual Governance Statement will be reported to the Committee in May 2018.

**RESOLVED to note:**

- (1)     the progress made to date in addressing the issues reported in the 2016/17 Annual Governance Statement;**
- (2)     the process and timetable for compiling and completing the 2017/18 Annual Governance Statement, as outlined in appendix 1 to the report.**

**55     BEST PRACTICE FOR THE GOVERNANCE OF CITY COUNCIL COMPANIES**

Shail Shah, Head of Audit and Risk, presented a report to Audit Committee on the best practice for governance of City Council companies. Nottingham City Council now has a complex group structure in terms of City Council owned companies, and a standardised governance approach is required. This will be beneficial not only to Nottingham City Council, but also to the companies, so that there is a standard approach for communicating and interacting with the City Council. The proposals will be going to the Corporate Leadership Team shortly, and an updated version will be presented at a future meeting of Audit Committee. Training will be provided for Councillor board members to clarify their roles.

Following questions and comments from the Committee, additional information was provided:

- (a)     companies will be required to join and attend the shareholder board. It is anticipated that the companies will see the shareholders board as an opportunity for greater communication and realise the benefits of a standardised approach;
- (b)     the External Auditors welcome the proposed standardisation.

**RESOLVED to note the proposed Code of Best Practice for Governance of Companies.**

**56     INTERNAL AUDIT QUARTERLY REPORT (3RD QUARTER 2017/18)**

Shail Shah, Head of Audit and Risk, presented a report to the Committee on the performance of Internal Audit during the third quarter of 2017/18. The plan has been achieved and all performance indicators met. All reports for the year will be presented at the next meeting of Audit Committee for any further scrutiny as required.

**RESOLVED to note the performance of Internal Audit during the third quarter of 2017/18.**





# External Audit Plan 2017/2018

**Nottingham City Council**

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Updated in May 2018

# Summary for Audit Committee

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## Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. Whilst the Authority chose to advance its own accounts production timetable last year, further advances will be required this year in order to ensure that deadlines are met. As a result we have recognised a significant risk in relation to this matter.

In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

## Materiality

Materiality for planning purposes has been set at **£10.5 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' and this has been set at **£0.525 million**.

## Significant risks

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

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;
- **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation; and
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). There are a number of logistical challenges that will need to be managed, one of which is ensuring that any third parties (subsidiaries and subsidiary auditors) involved in the production of the accounts are aware of the revised deadlines. We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

*(continued overleaf)*

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# Summary for Audit Committee (cont.)

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## Financial Statements (cont.)

### Other areas of audit focus

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

- Group Accounts including Robin Hood Energy Ltd;
- Implications of Tramlink's auditors' comments regarding its going concern;
- Broadmarsh development;
- Commercial property investment; and
- Proposed changes to Minimum Revenue Provision (MRP) policy.

**See pages 3 to 12 for more details**

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## Value for Money Arrangements work

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

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures increased such as demand for Adult Social Care Services, the Authority is having to make additional savings beyond those from prior years and subsequently is also pursuing income generation strategies to help deliver sustainable budgets going forward. We will consider the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects and how budgets are monitored throughout the year. We will also consider the financial impact of the Authority's participation in the Nottingham Sustainability and Transformation Plan; and
- **Group governance** - The Authority has a relatively complex Group structure. In 2016/17 the Authority consolidated within its Group accounts six subsidiaries, two joint ventures and one trust fund. The Authority has recognised that as its Group structure evolves, then so must the overarching governance arrangements in place at the Authority to monitor and ensure that appropriate accountability of the respective subsidiaries and joint ventures are in place. We will consider the group governance arrangements the Authority has in place.

**See pages 13 to 18 for more details**

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## Logistics

Our team is:

- Tony Crawley – Director
- Thomas Tandy – Manager
- Arvinder Khela – Assistant manager

More details are in **Appendix 2**.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 21**.

Our fee for the 2017/18 audit is £172,118 (£178,727 2016/2017) see **page 20**. These fees are in line with the scale fees published by PSAA.

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# Introduction

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office’s Code of Audit Practice and the PSAA Statement of Responsibilities.

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

- 01 | **Financial statements :**  
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and
- 02 | **Use of resources:**  
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reported to the Audit Committee.

## Financial Statements Audit

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



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 13 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.





# Financial statements audit planning

## Financial Statements Audit Planning

Our planning work takes place during December 2017 to January 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

## Risk assessment

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

01

### Management override of controls

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

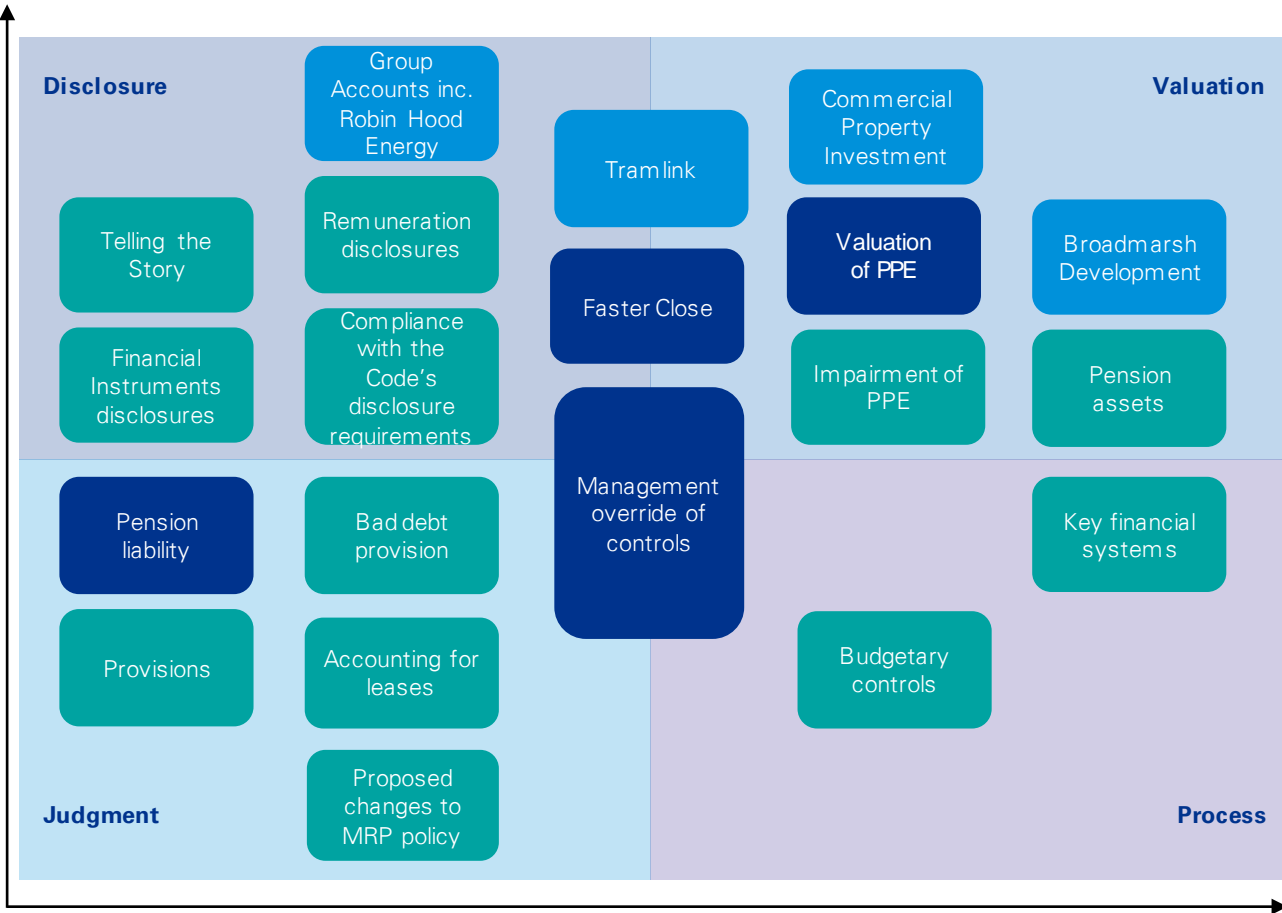
02

### Fraudulent revenue recognition

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

# Financial statements audit planning (cont.)

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



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

# Financial statements audit planning (cont.)

## Significant Audit Risks

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

### Risk:

#### Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition to this, for various assets, the valuation is undertaken as at 1 April, which presents a risk that the fair value is different at the year end.

### Approach:

We will undertake the following work over the valuation of material fixed assets:

- upon application of any revaluation exercise, we will review the revaluation basis and consider its appropriateness. We will engage our valuation specialist to undertake an assessment of the revaluation;
- undertake an assessment of the expertise of the valuer commissioned to perform the revaluation exercise. We will obtain the instructions provided to the valuer and assess the independence and objectivity of the surveyors and the terms under which they were engaged by management;
- consider the source of the information provided to, and used by, the valuer, and undertake appropriate testing to ensure both its completeness and accuracy, including the existence of assets;
- review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach.
- confirm the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements.
- undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated. We will test the associated assumptions.

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

<b>Risk:</b>	<p><b>Pension Liabilities</b></p> <p>The net pension liability represents a material element of the Authority’s balance sheet. The Authority is an admitted body of the Nottinghamshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority’s overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
<b>Approach:</b>	<p>We will undertake the following the work over the valuation of the pension liability:</p> <ul style="list-style-type: none"><li>— review the controls that the Authority has in place over the information sent directly to the Scheme Actuary;</li><li>— liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation;</li><li>— evaluate the competency, objectivity and independence of Barnett Waddingham;</li><li>— review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary; and</li><li>— review the overall actuarial valuation and consider the disclosure implications in the financial statements.</li></ul>



# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

<b>Risk:</b>	<p><b>Faster Close</b></p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 12 June. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none"><li>— Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;</li><li>— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;</li><li>— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and</li><li>— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.</li></ul> <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
<b>Approach:</b>	<p>We will liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.</p> <p>Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.</p>

# Financial statements audit planning (cont.)

## Other areas of audit focus

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

### Issue:

#### Group Accounts including Robin Hood Energy

The Authority has a relatively complex Group structure and will therefore need to ensure its Group Accounts are complete and intra group transactions correctly identified and removed.

As we noted in our prior year ISA260 report, one of the Authority's subsidiaries, Robin Hood Energy Ltd (RHE), has seen significant increases in turnover and outturn position since 2015/16, this included posting a £7.5 million operating loss in 2016/17, although we note that this is expected to be improved in 2017/18. As per last year we have made RHE a significant component for our audit.

### Approach:

We will review the consolidation procedures in place at the Authority, and the Authority's assessment of all entities over which the Authority has control or significant influence and the Authority's subsequent consideration whether or not to consolidate each entity within the Group Accounts.

We will liaise formally with RHE's auditor's to enable us to make use of the outcome of their audit (including their opinion) for our audit opinion on the Authority's Group Accounts.

We will discuss the process to identify and eliminate intra-group transactions.

We will agree the final accounts consolidation back to audited financial statements for each subsidiary, joint venture and Trust fund consolidated within the Group Accounts.

### Issue:

#### Implications of Tramlink's auditors' comments regarding going concern

Tramlink Nottingham Ltd is one of the Authority's key external partners. The company is a PFI concession who built the tram lines for NET Phase 2, and now operates and maintains all tram lines in Nottingham.

In their 2016/17 financial statements, Tramlink's auditors' issued an Emphasis of Matter paragraph within their opinion in regards to going concern and financial uncertainties linked to breaching bank covenant ratios.

### Approach:

We will discuss with the Authority the latest position in regards to Tramlink Nottingham Ltd and any implications for the Authority's financial statements.

# Financial statements audit planning (cont.)

## Other areas of audit focus (cont.)

<b>Issue:</b>	<b>Broadmarsh Development</b>  The Authority has begun work on its Broadmarsh redevelopment with the demolition of the Broadmarsh car park. The Authority is due to submit plans to Executive Board for approval in regards to the next phase of the project in developing a new car park and shopping centre.  The work to date will have an impact upon the financial statements, through disposing of the existing car park, and capitalising costs incurred up to 31 March 2018.
<b>Approach:</b>	We will consider the accounting treatment of the Broadmarsh development as at 31 March 2018, specifically the accounting treatment of the demolition of the car park and capitalisation of costs incurred to date.  We will discuss with officers the financial plans of the project including proposed financing and financial plan.

<b>Issue:</b>	<b>Commercial Property Investment</b>  In 2016/17 the Authority invested £87.5 million in commercial properties. The Authority set out within its 2017/18 budget a planned £41.85m of further investment property acquisitions for 2017/18, and it is anticipated that valuation of the Authority’s investment property portfolio will exceed £200m by the year-end.  The Authority will need to ensure that all commercial property investments are valued at fair value at 31 March 2018, that there are arrangements in place to ensure associated borrowing is sustainable, and that arrangements are in place to cope with events such as impairment of the assets.
<b>Approach:</b>	We will review the valuation of commercial property investments, including new additions in year.  We will consider the arrangements to assess the sustainability of borrowings both individually and as a whole to the Authority’s investment property portfolio, and the financial robustness of the Authority if the assets decrease in value.

<b>Issue:</b>	<b>Proposed changes to Minimum Revenue Provisions</b>  The Authority has informed us that they are considering making changes to the way it calculates its Minimum Revenue Provision (MRP) which has the potential to have a significant financial impact.
<b>Approach:</b>	We will review the proposed changes to the MRP policy.  We will consider how the Authority communicates to its Members the financial impact of any changes, including in the medium and long term.

# Financial statements audit planning (cont.)

## Materiality

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

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

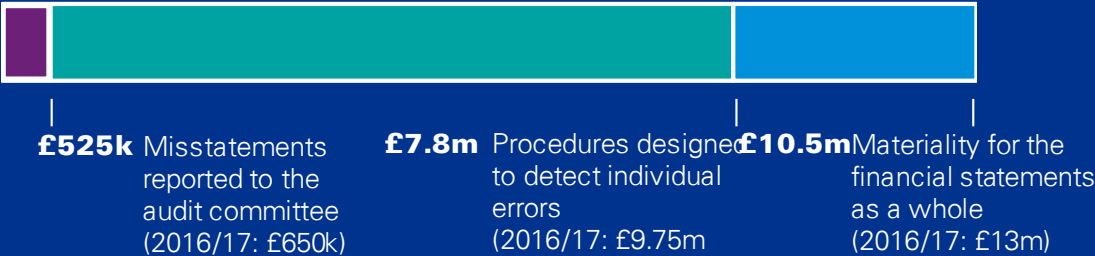
For the Authority, materiality for planning purposes has been set at £10.5 million for the Authority's standalone accounts and for the group accounts (PY £13 million).

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

## Materiality

**£10.5m**

(2016/17: £13m,  
1.15 %)



## Reporting to the Audit Committee

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £525k.

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

## We will report:



Non-Trivial  
corrected audit  
misstatements



Non-trivial  
uncorrected audit  
misstatements



Errors and omissions in disclosure  
(Corrected and uncorrected)

# Financial statements audit planning (cont.)

## Group audit

In addition to the Authority, the group accounts for 2016/17 included six subsidiaries, two joint ventures and one trust fund. We have identified Robin Hood Energy Ltd as significant component in a financial context of the group audit.

We will reassess the significance of these subsidiaries throughout our audit and will report any changes in our assessment to the Audit Committee.

To support our audit work on the Authority’s group accounts, we seek to place reliance on the work of BDO LLP who is the auditor to Robin Hood Energy Ltd. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

## We will report the following matters in our Report to those charged with Governance:

01

Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;

02

Any limitations on the group audit, for example, where the our access to information may have been restricted; and

03

Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor’s work.

# Value for money arrangements work

## VFM audit approach

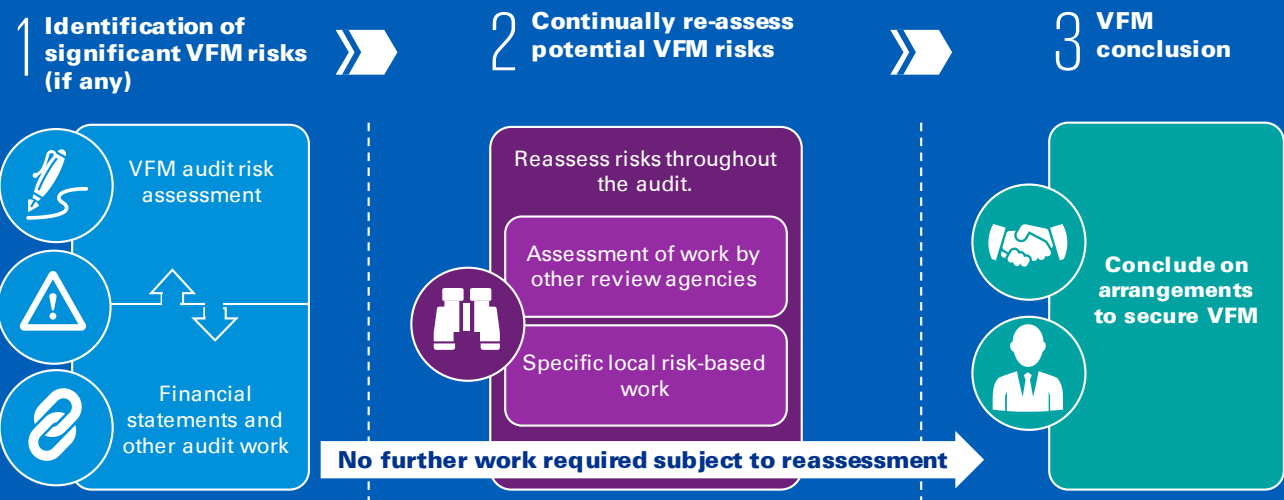
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

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

## Overall criterion

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

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



# Value for money arrangements work (cont.)

## Value for Money sub-criterion

### Informed decision making

Proper arrangements:

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

### Sustainable resource deployment

Proper arrangements:

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

### Working with partners and third parties

Proper arrangements:

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

# Value for money arrangements work (cont.)

## VFM audit stage



### VFM audit risk assessment

#### Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.



### Linkages with financial statements and other audit work

#### Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.



### Identification of significant risks

#### Audit approach

The Code identifies a matter as significant '*if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*'

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.



# Value for money arrangements work (cont.)

## VFM audit stage



### Assessment of work by other review agencies, and Delivery of local risk based work

#### Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.



### Concluding on VFM arrangements

#### Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.



### Reporting

#### Audit approach

We have completed our initial VFM risk assessment and have identified one significant VFM risk. On the following page, we report the results of our initial risk assessment.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

# Value for money arrangements work (cont.)

## Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

<b>Risk:</b>	<p><b>Delivery of budgets</b></p> <p>The Authority’s net revenue budget of £238.54m 2017/18 was approved by full Council in March 2017. The forecast at Quarter 2, stated that the Authority will deliver an over spend which has been forecasted at: £2.65m (Best case), £2.70m (Medium Case) or £6.55m (Worst Case).</p> <p>Proposed savings for 2017/18 have been planned at £24.45m from savings on both portfolios and health integration as per the 2017/18 budget. Further savings of £25.86m and £29.14m for 2018/19 and 2019/20 respectively will be required principally to address future reductions to local authority funding alongside service cost and demand pressures as set out within the Medium Term Financial Plan, notably within Adult Social Care. As a result, the need for savings along with income generation from commercial activity will continue to have a significant impact on the Authority’s financial resilience, as it strives to put in place a sustainable budget</p> <p>In addition, the Authority’s overall level of borrowing as at 31 March 2017 was £796.26m. As reported to Audit Committee in January 2018 via the Treasury Management Half Yearly Update, external borrowing is expected to increase by £255m in 2017/18 based on the revised capital program and forecast cash flow requirements.</p> <p>Therefore we consider this to be a significant risk.</p>
<b>Approach:</b>	<p>As part of our additional risk based work we will undertake the following procedures over this significant risk:</p> <ul style="list-style-type: none"><li>— review the Authority’s Medium Term Financial Plan, and consider the proposed actions to mitigate factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors;</li><li>— review the reported actual delivery of the Authority’s savings programme compared to planned savings;</li><li>— review the arrangements in place to ensure that overall borrowing levels are sustainable;</li><li>— review the budget and savings plan for 2018/19, including any contingencies.</li></ul>
<b>VFM Sub-criterion:</b>	<p>This risk is related to the following Value For Money sub-criteria</p> <ul style="list-style-type: none"><li>— Informed decision making;</li><li>— Sustainable resource deployment; and</li><li>— Working with partners and third parties</li></ul>

# Financial statements audit planning (cont.)

## Significant VFM Risks (cont.)

<b>Risk:</b>	<p><b>Group Governance Arrangements</b></p> <p>The Authority has a relatively complex group structure. In 2016/17 the Authority consolidated within its group accounts, six subsidiaries, two joint ventures and one trust fund. Of these, most notably was the expansion of the Robin Hood Energy (RHE), which we classified as a significant component. For 2017/18, further growth of RHE is forecast, and we will therefore continue to classify RHE as a significant component.</p> <p>The Authority has recognised that as its group structure evolves, then so must the overarching governance arrangements in place at the Authority to monitor and ensure that appropriate accountability of the respective subsidiaries and joint ventures are in place. The Authority is in the process of commencing a key review of the Authority’s group governance arrangements.</p> <p>In addition to this for years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. In order to meet the revised deadlines, there are a number of logistical challenges that will need to be managed, one of which is ensuring that any third parties (subsidiaries and subsidiary auditors) involved in the production of the accounts are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with the closedown and accounts production timetable.</p>
<b>Approach:</b>	<p>As part of our work we shall:</p> <ul style="list-style-type: none"><li>— review the current governance arrangements in place surrounding the current group structure;</li><li>— consider the findings from the Authority’s own internal review of group governance arrangements. We referred to this review in our prior year ISA260 report, where the terms of reference for the internal review were presented to Audit Committee in September last year</li></ul>
<b>VFM Sub-criterion:</b>	<p>This risk is related to the following Value For Money sub-criteria</p> <ul style="list-style-type: none"><li>— Informed decision making;</li><li>— Sustainable resource deployment; and</li><li>— Working with partners and third parties</li></ul>

# Other matters

## Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

## Elector challenge

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

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

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

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



# Other matters

## Reporting and communication

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

## Independence and Objectivity

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

## Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £172,118, consistent with the scale fee for 2016/2017 of £172,118 (note that we have agreed a fee variation of £6,609 in regards to last year's external audit, with your officers and the PSAA. The fee variation relates to additional audit work required in order for us to sign our accounts opinion relating to:

- Estimated pensions data used by the Authority during its triennial revaluation (£2,102);
- Authority's Group Structure (£2,594); and
- NET 2 PFI Model and related disclosures (£1,913).

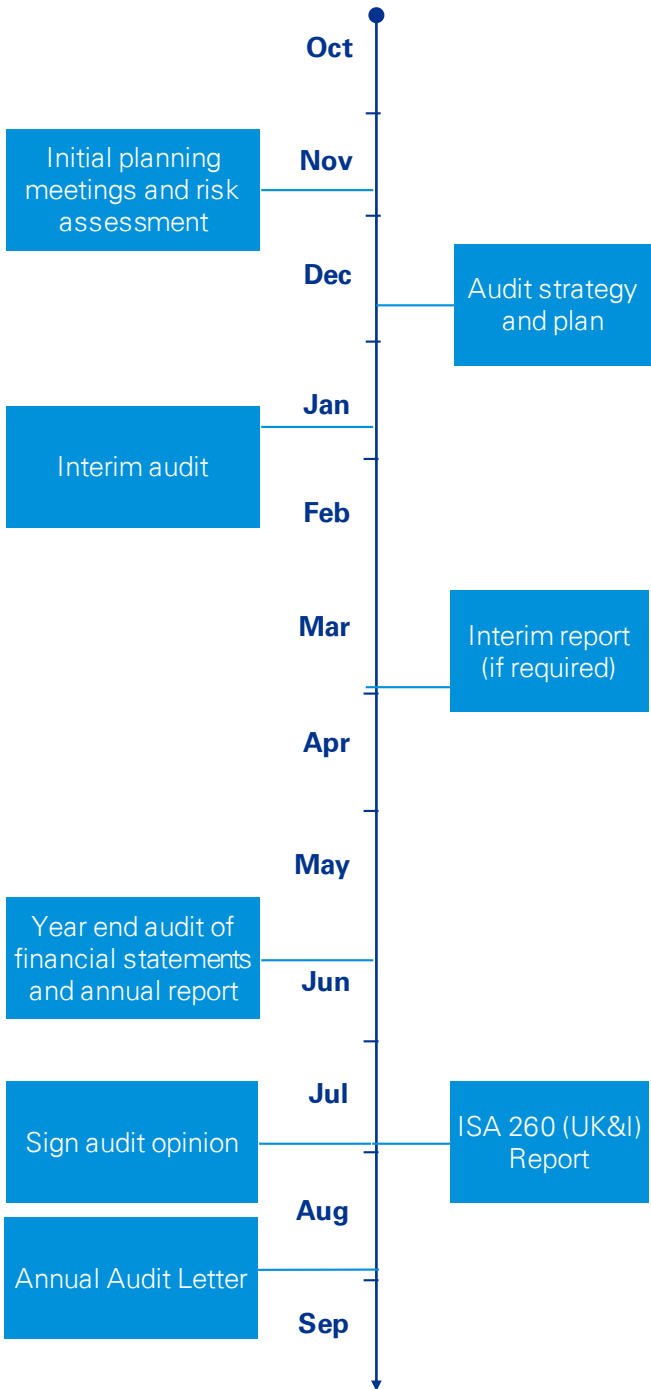
Our scale fee in regards to the Authority's Housing benefits audit for 2017/18 is £18,458. This fee is determined by PSAA.

Appendix 1:

Key elements of our financial statements audit approach

Communication

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





## Appendix 1:

# Key elements of our financial statements audit approach (cont.)

### Audit workflow

#### Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use or experts; and
- Issuing this audit plan to communicate our audit strategy.

#### Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

#### Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

#### Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting



# Appendix 2:

## Audit team

Your audit team has been drawn from our specialist public sector assurance department.



**Tony Crawley**  
Director

T: +44 (0) 11 6256 6067  
E: [tony.crawley@kpmg.co.uk](mailto:tony.crawley@kpmg.co.uk)

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



**Thomas Tandy**  
Manager

T: +44 (0) 11 5945 4480  
E: [tandy.thomas@kpmg.co.uk](mailto:tandy.thomas@kpmg.co.uk)

‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Tony to ensure we add value. I will liaise with the Strategic Director of Finance’



**Arvinder Khela**  
Assistant Manager

T: +44 (0) 12 1609 5880  
E: [arvinder.khela@kpmg.co.uk](mailto:arvinder.khela@kpmg.co.uk)

‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’



## Appendix 3:

# Independence and objectivity requirements

## ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NOTTINGHAM CITY COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

#### *Summary of fees*

We have considered the fees charged by us to the authority and its affiliates for professional services provided by us during the reporting period.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

#### *Analysis of Non-audit services for the year ended 31 March 2018*

See table overleaf.

Appendix 3:

Independence and objectivity requirements

Independence and objectivity considerations relating to the provision of non-audit services (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Value of Services Delivered in the year ended 31 March 2018 £000	Principal threats to independence and Safeguards Applied.
Additional certification work in regards to Pooling of Capital Receipts Return	£4,000	<b>Self-interest:</b> These engagements are entirely separate from the audit through a separate contract. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.
Additional certification work in regards to Teachers Pension Return	£2,500	<b>Self review:</b> The nature of this other 'assurance' work has no impact on the 2017/18 audit as it relates to 2016/17 financial year. Therefore, it does not impact on our opinion and we do not consider it to be a threat to our role as external auditors. We do not audit the Nottingham City Transport (NCT) in regards to our pensions work.
Additional certification work in regards to SFA subcontracting	£4,000	<b>Management threat:</b> This work involved the certification of these returns only –all decisions were made by the Authority. In regards to the pensions work, we are not the auditors for NCT
Pensions Advisory Services for Nottingham City Transport	£14,750	<b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work. <b>Advocacy:</b> We will not act as advocates for the Authority in any aspect of this work. We have drawn on our experience in such roles to certify the returns but the scope of this work falls well short of any advocacy role <b>Intimidation:</b> Not applicable.

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO. Non-audit services currently **total £25,250**, which is **15%** of the audit fee. We have agreed with the PSAA that our £31,000 fee for strategic advisory services work for Midlands Engine, procured on its behalf by the Authority, does not count towards the fee threshold as it is not for the Authority. For clarity, your audit team is not involved in the Midlands Engine work.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.



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

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

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

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**AUDIT COMMITTEE – 22 JUNE 2018**

<b>Title of paper:</b>		TREASURY MANAGEMENT 2017/18 ANNUAL REPORT	
<b>Director(s)/ Corporate Director(s):</b>		Laura Pattman, Director of Strategic Finance	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>		Glyn Daykin, Senior Accountant - Treasury Management 0115 8763724 glyn.daykin@nottinghamcity.gov.uk	
<b>Other colleagues who have provided input:</b>		Members of Treasury Management Panel	
<b>Recommendation(s):</b>			
1	To note the performance information in relation to Treasury Management for 2017/18.		

**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 2017/18**

- 3.1 This report sets out the 2017/18 performance in respect of the management of the Council's external debt and investments. The key points are:
  - 3.1.1 the balance of external debt increased by £76.7m to £865.6m. The average rate of interest payable on the debt portfolio increased from 3.270% at 31 March 2017 to 3.398% at 31 March 2018 (see section 3.4);
  - 3.1.2 the council secured £180m of new long term borrowing during 2017/18. These loans have an average fixed interest rate of 2.38% with an average life of 47 years.
  - 3.1.3 the average rate of interest earned on short-term investments was 0.324%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged 0.310% for the same period (see section 3.8);

- 3.1.3 the 2017/18 budget outturn for General Fund Treasury Management was £69.174m (see section 3.12);
- 3.1.4 there were no breaches of the Prudential Indicators set for 2017/18 (see section 3.11).
- 3.1.5 the Operational Boundary and the Authorised Limit for external debt within the Prudential Indicators were increased by £167m and £152m resp. within 2017/18 which was approved by Full Council on 22 January 2018 (see section 3.11.7).
- 3.1.5 the Debt Repayment Strategy known as Minimum Revenue Provision (MRP) was revised within 2017/18 and approved by Full Council on 5 March 2018 (see section 3.13).

## 3.2 Growth and Inflation:

- 3.2.1 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year at 0.3% in both quarters 1 & 2 (+1.5% y/y at Q2).

The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

## 3.2.2 UK Monetary Policy:

The Monetary Policy Committee (MPC) meeting of 14 September provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened their wording in terms of needing to raise Bank Rate very soon.

The 2 November MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016.

The UK growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The 8 February MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.)

This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate.

During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

**Appendix 3** shows the money market interest rates and the Public Works Loans Board (PWLb) borrowing rates for 2017/18.

### 3.3 Local Context

3.3.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

3.3.2 At 31/03/2018 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,369.8m.

3.3.3 At 31/03/2018, the Council had £1,073.6m of borrowing including £208.0m of Private Finance Initiative (PFI) Debt and £31.3m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to maintaining a liquidity investment balance of around £30m.

3.3.4 The Council has an increasing CFR over the next 3 years due to the capital programme, investments are expected to remain at around £30m resulting in around £264m of new borrowing being required as reported in the 2018/19 Treasury Management Strategy Report.

### 3.4 Borrowing

3.4.1 The CFR is a gauge of the Council's indebtedness and results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2017/18 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.4.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board (PWLb) or the money markets), or utilising temporary cash resources within the Council (Internal Borrowing).

3.4.3 Total outstanding debt in 2017/18 increased by £76.7m to £865.6m as at 31 March 2018. The total long term debt increased by £163.7m while temporary borrowing had decreased by £87.0m as at 31 March 2018. The average rate of interest on total debt increased, from 3.270% at 31 March 2017 to 3.398% at 31 March 2018.

Table 2 analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO				
	01-Apr-17		31-Mar-18	
DEBT	£m	%	£m	%
PWLB borrowing	623.6	3.729	787.3	3.448
Market loans	49.0	4.348	49.0	4.348
Local bonds & Stock	0.6	3.001	0.6	3.001
Temporary borrowing	115.7	0.338	28.7	0.430
<b>TOTAL DEBT</b>	<b>788.9</b>	<b>3.270</b>	<b>865.6</b>	<b>3.398</b>

- 3.4.4 The Council'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.
- 3.4.5 The Council raised a total of £180m of new long term fixed rate loans in 2017/18. These had an average life of 47 years and an average rate of 2.38% with a revenue cost of c.£4.278m per annum in interest payable. The increase in fixed rate loans provide long term cost certainty and reduces the Councils exposure to increases in long term interest rates. The PWLB was the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.
- 3.4.6 Temporary loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. £314m of such loans were borrowed at an average rate of 0.37% and an average life of 90 days this total includes the replacement of maturing loans. The Council's outstanding balance of Temporary loans has decreased by £87m with the debt portfolio showing £28.7m outstanding as at 31 March 2018.
- 3.4.7 The Council has increased the under-borrowed position in 2017/18 by £31m with Internal Borrowing of c.£296m at 31 March 2018. This meant that the capital borrowing need (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure. This strategy was prudent as investment returns were low and counterparty risk was still an issue that needed to be considered.
- 3.4.8 The second half of 2017/18 displayed an increase in risks within the economic forecasts, caution was adopted within the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and it was felt that there was a significant risk of a sharper rise in long and short term rates than initially expected, arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, so the portfolio position was re-appraised and an increased level of fixed rate funding was drawn down whilst interest rates were lower than they were projected to be in the next few years.
- 3.4.9 An interest equalisation reserve has been maintained to mitigate the risk of unexpected rises in long term interest rates with c.£12.5m ring-fenced to smooth the impact of further increasing the proportion of fixed long term loans.
- 3.5 Lender Option Borrower Option (LOBOs)
- 3.5.1 The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.



£14.000m of these LOBO loans had options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

- 3.5.2 The council previously held LOBO loans with Barclays Bank, but in 16/17 the Bank cancelled all the embedded options within the loans. This effectively converted the £15m of Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date.

### 3.6 Debt Rescheduling

- 3.6.1 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 Council’s portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

### 3.7 Housing Revenue Account (HRA) Borrowing

- 3.7.1 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 fixed rate HRA borrowing has taken place in 2017/18.
- 3.7.2 The HRA element of the CFR was £294.1m and is fully financed at an average rate of 4.23% as at 31 March 2018. The HRA interest charge for 2017/18 was £12.158m.

### 3.8 Investments

- 3.8.1 Security of capital has remained the Council’s main investment objective. This has been maintained by following the Council’s counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18.
- 3.8.2 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council’s minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody’s); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 3.8.3 In the past 12 months, the Council’s investment balance has ranged between £24m and £64m. The strategy of maintaining investment balances towards £30m has seen the dual benefit of reducing the Council’s exposure to bank credit risk and has allowed the budget to benefit from the net borrowing exposure to the low interest rate environment.
- 3.8.4 The average sum invested during the year was £64.6m, earning total interest of £0.449m at an average rate of 0.324%. After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August 2016 and remained until November 2017 when the Bank Rate returned to 0.50%. The low short-term interest rates (see appendix 3), meant that the average return for 2017/18 was below that of recent years, but higher

than the original budget estimate of 0.30%, due to the unforeseen November rate rise and subsequent increases in short term Money Market interest rates.

- 3.8.5 The Council benchmarks its average return against the 7-day London Interbank (LIBID) rate provided by the Bank of England. For 2017/18, the average 7-day LIBID rate was 0.31%.

**TABLE 3 - Investment Activity in 2017/18**

<b>Investments</b>	<b>Balance on 01/04/2017 £m</b>	<b>Balance on 31/03/2018 £m</b>	<b>Avg Rate/Yield (%) Avg days to maturity</b>
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- or higher	5.0	0	N/A
- Local Authorities	10.0	10.0	0.40% / 2
Long term Investments	0.0	0.0	N/A
Money Market Funds	12.0	21.3	0.46% / 1
<b>TOTAL INVESTMENTS *</b>	<b>27.0</b>	<b>31.3</b>	<b>0.44% / 1</b>
- Increase/ (Decrease) in Investments £m		4.3	

Note: \* excludes balance in Icelandic ISK Escrow account

- 3.8.6 Table 3 above shows the movement in investments by type during 2017/18. The council has retained its use of instant access money market funds with the dual benefit of increased diversity and a credit rating of AAAm.
- 3.8.7 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 3.8.8 Appendix 2 provides details of the Council's external investments at 31 March 2018, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.
- 3.9 Icelandic Krona (ISK) in Escrow
- 3.9.1 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 had been paid in ISK and due to currency restrictions in Iceland, this sum had been retained in an interest-bearing escrow account with the Central Bank of Iceland. On 27 June 2017 the Council received £3.2m as proceeds from the sale of the restricted ISK balance including accrued interest as the Central Bank of Iceland starts to remove the currency controls and normalise their economy.

The council has now received 100% of the principal balance deposited with Glitnir Bank.

### 3.10 External advisors

3.10.1 External treasury management advisors 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.

3.10.2 The council has retendered the advisor contract in 2016/17, and starting from 1<sup>st</sup> April 2017 has received good quality services from Link Asset Services (previously known as Capita Asset Services).

### 3.11 Compliance with Prudential Indicators

3.11.1 The Council confirms compliance with its Prudential Indicators for 2017/18 set on 6 March 2017 as part of the Council's Treasury Management Strategy Statement. Appendix 1 shows the complete list of indicators including actual performance against these indicators for 2017/18 together with comparative figures for 2016/17.

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

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

	2017/18 £m	2018/19 £m	2019/20 £m
Upper limit on fixed interest rate exposure	900	900	900
Actual	741		
Upper limit on variable interest rate exposure	300	300	300
Actual	93		

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

	Lower	Upper	Actual
Under 12 months	0%	25%	7%
12 months and within 24 months	0%	25%	4%
24 months and within 5 years	0%	25%	10%
5 years and within 10 years	0%	25%	15%
10 years and within 25 years	0%	50%	18%
25 years and within 40 years	0%	50%	20%
40 years and above	0%	25%	25%

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

	2016/17 £m	2017/18 £m	2018/19 £m
Limit on principal invested beyond year end	20	20	20
Actual	0		

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

	2017/18 Original Estimate £m	2017/18 Revised PI Limits £m	2017/18 Max Debt in year £m
Borrowing	831.5		866.6
Other Long-term Liabilities *	215.8		208.0
Total External Debt	1,047.3		1,073.6
Operational Boundary	1,107.2	1,275.0	
Authorised Limit	1,147.2	1,300.0	

\* Includes PFI and Leases liabilities

3.11.7 The Operational Boundary and Authorised limit for external debt was increased as part of a revision to the Treasury Management Strategy which was approved by Full Council on 22 January 2018. This was due to additional approvals within the capital program since the original strategy was approved. The additional capital expenditure will have been subject to an affordability assessment as part of the business case approval from the Section 151 Officer.

3.11.8 Adoption of the CIPFA Treasury Management Code:

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice*.

### 3.12 General Fund Revenue Implications

3.12.1 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.

3.12.2 The outturn in 2017/18 for treasury management costs was £69.174m. The total treasury management-related costs in 2017/18, comprising interest charges less receipts, plus provisions for repayment of debt, were £81.333m. Of this PFI related expenditure accounted for £29.703m which includes the NET lines 1 & 2. A proportion of the Council's debt relates to capital expenditure on council housing and £12.159m of these costs was charged to the HRA.

The remaining General Fund costs of £69.174m gave a favourable variance of £0.220m which is included within the treasury management section of the General Fund corporate Budget Outturn Report on the 19 June 2018 Executive Board agenda.

### 3.13 Revision to 2017/18 Minimum Revenue Provision

3.13.1 The Debt Repayment Strategy known as Minimum Revenue Provision (MRP) was revised within 2017/18 and approved by Full Council on 5 March 2018 (see published report Treasury Management Strategy 2018/19 and Revision to 2017/18 Debt Repayment Strategy).

3.13.2 This revision approved the retrospective calculation of a c.£28m overprovision in the period 2007 – 2016 based on applying the existing MRP policy on the repayment of the Pre-2007 debt known as ‘Supported Borrowing’. The amount of MRP charged from 2017/18 to 2023/24 will be adjusted for this overprovision (reduction of c.£4m pa for 7 years) and used to finance ‘transformation of services’ works to be carried out that support achieving a sustainable medium term financial plan including the resulting future MRP charges.

### 3.14 Treasury Management Reserve

3.14.1 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 2018 is £3.513m.  
A separate reserve for interest equalisation has been set up with a balance £12.537m specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated.

### 3.15 Value for Money

3.15.1 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.

### 3.16 Risk Management

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

3.16.2 The treasury management risk register’s overall risk rating at 31 March 2018 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 31 March 2017. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

### 3.17 Revised CIPFA Codes

3.17.1 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.  
A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing

property in order to generate income for the council at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to councillors to give a high level summary of the overall capital strategy and to enable councillors to see how the cash resources of the council have been apportioned between treasury and non-treasury investments.

3.17.2 Full implementation is not required until 31 March 2019 i.e. the 2019/20 budget cycle.

### 3.18 Markets in Financial Instruments Directive II (MiFID II)

3.18.1 The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this council apart from having to fill in forms sent by each institution dealing with this council and for each type of investment instrument we use, apart from for cash deposits with banks and building societies.

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

5.2 CIPFA statistics, Bloomberg sourced Money Market rates and PWLB loan rates 2017/18.

5.3 Treasury Management Strategy 2018/19 and Revision to 2017/18 Debt Repayment Strategy.

**PRUDENTIAL INDICATORS**
**Appendix 1**

INDICATORS	2016/17 Actual	2017/18 Estimate	2017/18 Outturn	Within Limits?
<b>1) Prudence indicators</b>				
<b>i) Capital Expenditure</b>				
General Fund	£178.1m	£167.7m	£165.0m	YES
HRA	£56.3m	£63.3m	£55.2m	YES
	<b>£234.4m</b>	<b>£231.0m</b>	<b>£220.2m</b>	
<b>ii) CFR at 31 March</b>				
General Fund	£774.2m	£823.5m	£867.1m	YES
HRA	£280.3m	£279.8m	£294.7m	YES
PFI notional 'debt'	£226.0m	£215.8m	£208.0m	N/A
	<b>£1,280.5m</b>	<b>£1,319.1m</b>	<b>£1,369.8m</b>	
<b>iii) External Debt at 31 March</b>				
Borrowing	£788.9m	£831.5m	£865.6m	YES
PFI & leasing notional 'debt'	£226.0m	£215.8m	£208.0m	N/A
	<b>£1,014.9m</b>	<b>£1,047.2m</b>	<b>£1,073.6m</b>	
<b>2) Affordability indicators</b>				
<b>i) Financing costs ratio</b>				
General Fund	12.8%	15.4%	13.0%	YES
General Fund (Inc PFI costs)	22.8%		20.3%	YES
HRA	12.0%	12.3%	12.4%	YES
	<b>Max in year</b>		<b>Max in year</b>	
<b>ii) Authorised limit for external debt</b>	£1,091.6m	£1,300.0m	£1,073.6m	YES
<b>iii) Operational limit for ext. debt</b>	£1,091.6m	£1,275.0m	£1,073.6m	YES
<b>iv) HRA limit on indebtedness</b>				
HRA CFR	319.8	319.8	319.8	YES
HRA Debt Cap (prescribed)	280.3	279.8	294.7	YES
Difference - headroom	34.5	40.0	25.1	YES
<b>3) Treasury Management indicators</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
<b>i) Limit on NET variable interest rates</b>	171.4	300.0	93.3	YES
<b>ii) Limit on NET fixed interest rates</b>	588.2	900.0	741.0	YES
<b>iii) Fixed Debt maturity structure</b>				
- Under 12 months	17%	0-25%	7%	YES
- 12 months to 2 years	4%	0-25%	4%	YES
- 2 to 5 years	12%	0-25%	10%	YES
- 5 to 10 years	16%	0-25%	15%	YES
- 10 to 25 years	24%	0-50%	18%	YES
- 25 to 40 years	21%	0-50%	20%	YES
- 40 years and above	6%	0-25%	25%	YES
	<b>Max in year</b>		<b>Max in year</b>	
<b>v) Max sum invested for &gt;364 days</b>	£0m	£20.0m	£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) *'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.
- iii) *'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.



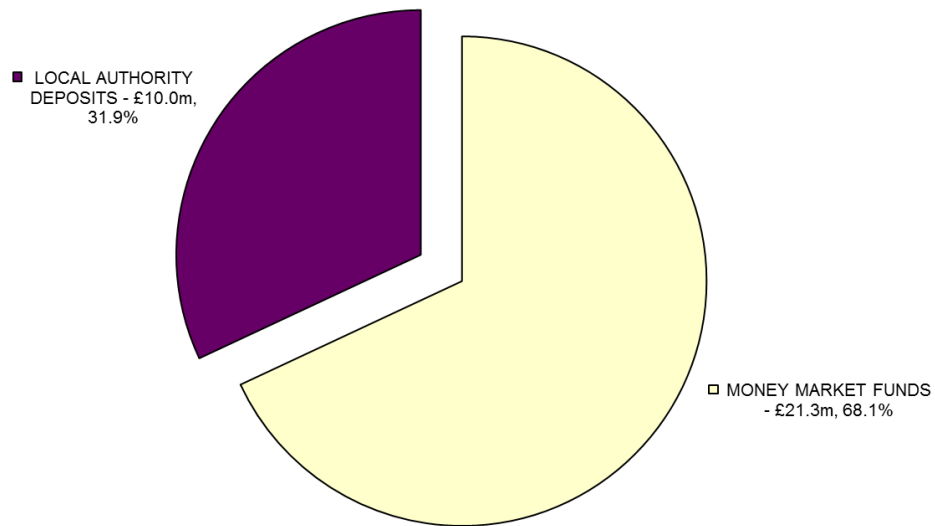
- iv) *'HRA limit on indebtedness'* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The CLG have imposed a 'cap' on the maximum level of debt for individual authorities and the difference between this limit and the actual HRA CFR represents the headroom available for future new borrowing.

### 3) **Treasury Management Indicators**

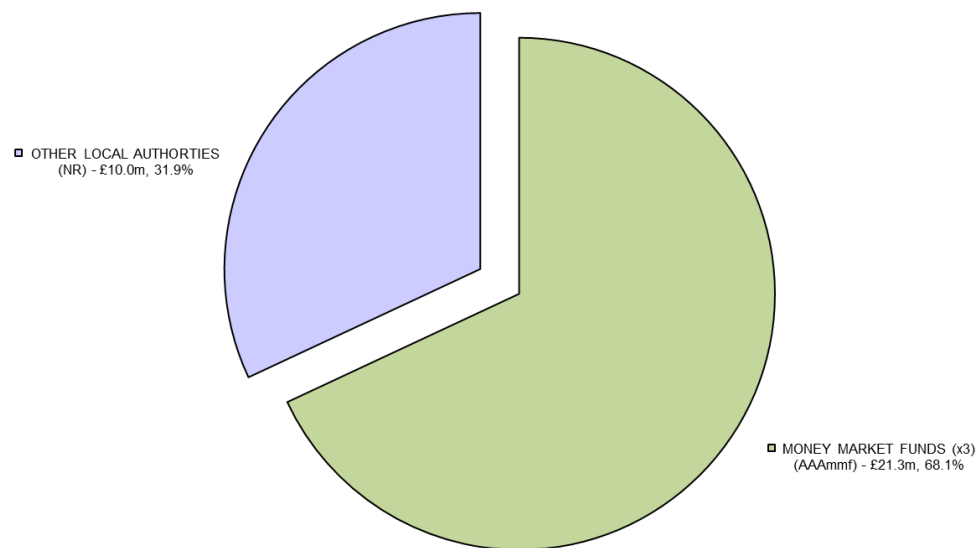
- i) *'Upper limit on NET variable interest rate exposure'* - is set to control the Council's exposure to interest rate risk. The upper limits on variable rate interest rate exposures, expressed as the amount of net principal borrowed.
- A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.
- ii) *'Upper limit on NET fixed interest rate exposure'* - is set to control the Council's exposure to interest rate risk. The upper limits on fixed interest rate exposures, expressed as the amount of net principal borrowed.
- Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates.
- iii) *'Upper and lower limits with respect to the maturity structure of the Council'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. The revised code issued in December 2017, will be fully incorporated by 31 March 2019.
- vi) *Credit risk* – The Council monitors a range of factors to manage credit risk, detailed in its annual Treasury Management Strategy (Investment Strategy section).

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**Type of Investments as at 31 March 2018**



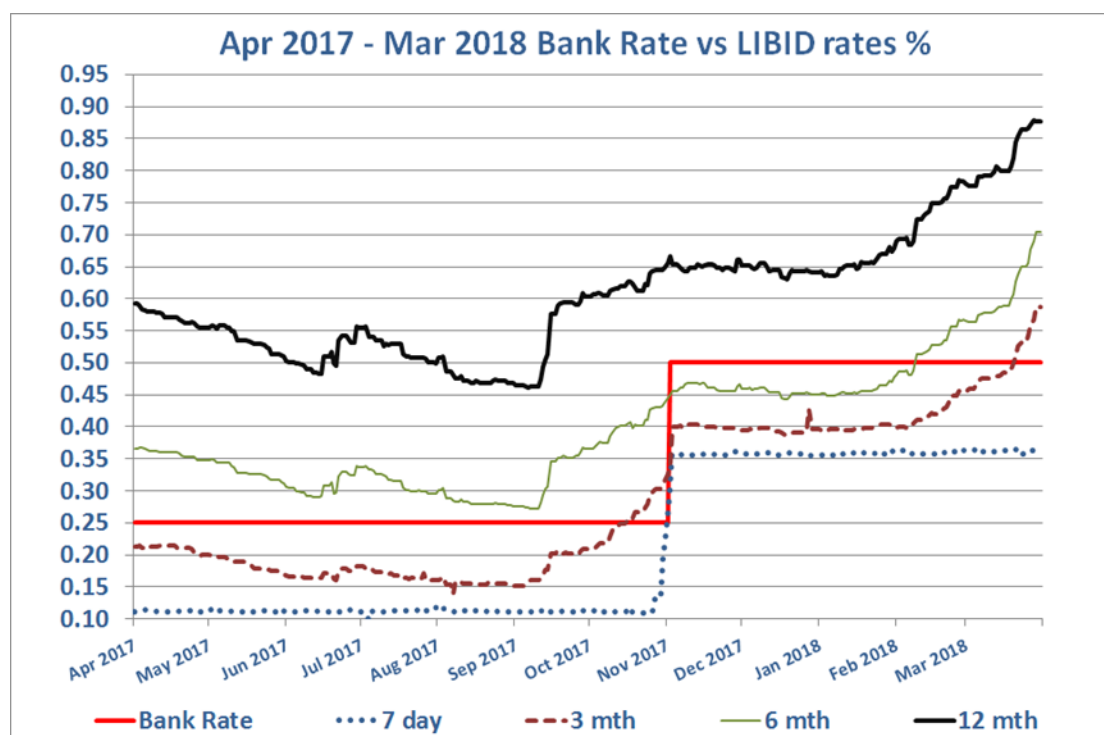
**Investment and Fitch credit long-term rating as at 31 March 2018**



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Investment Rates in 2017/18

Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18.

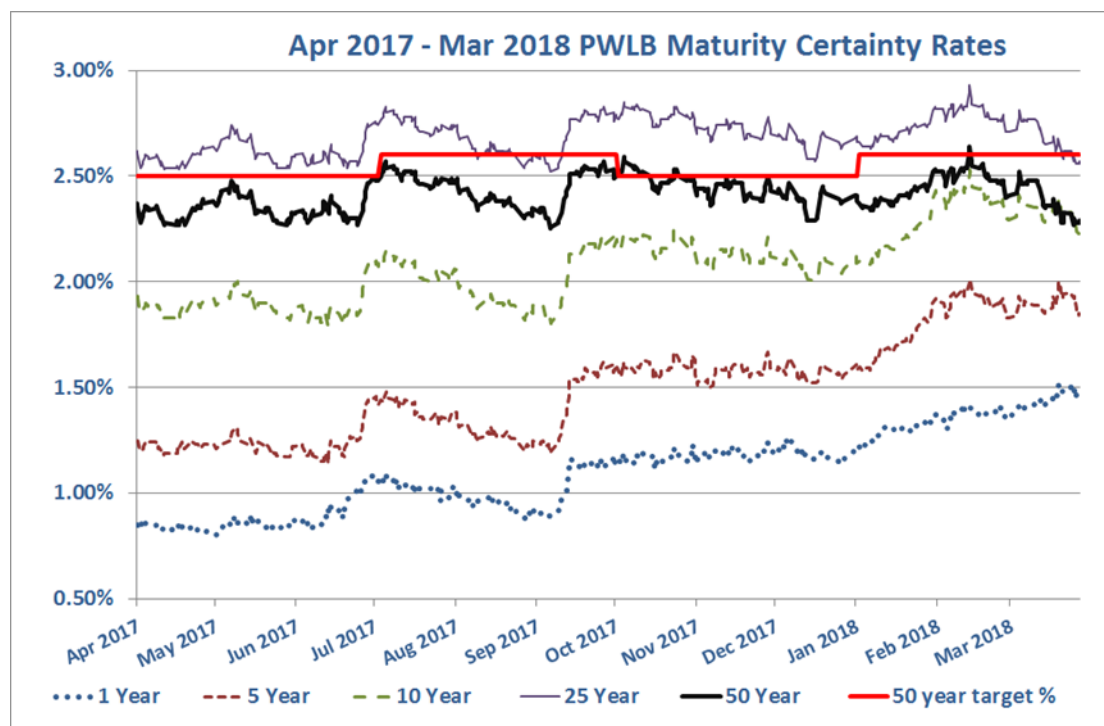


## Borrowing Rates in 2017/18

As depicted in the graph and tables below, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March.

During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4.

The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/17	0.85%	1.25%	1.93%	2.62%	2.37%
31/3/18	1.67%	2.05%	2.43%	2.77%	2.49%
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.51%	2.01%	2.53%	2.93%	2.64%
Date	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018
Average	1.11%	1.50%	2.08%	2.69%	2.41%

**AUDIT COMMITTEE - 22 June 2018**

Title of paper:		<u><b>INTERNAL AUDIT ANNUAL REPORT 2017/18</b></u>	
Director(s)/ Corporate Director(s):		Laura Pattman Director of Strategic Finance	<b>Wards affected: All</b>
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:			
<b>Recommendation(s):</b>			
1	To note the audit work completed during the year.		
2	To note the Head of Audit and Risk’s Annual Opinion.		
3	To note the proposed Audit Plan for 2018/19		

**1 REASONS FOR RECOMMENDATIONS**

- 1.1 This report outlines the work of the Internal Audit (IA) service at the end of the fourth quarter 2017/18. The report includes the Head of Audit & Risk's 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 (PSIAS) or guidance.
- 1.3 The Audit Committee's Terms of Reference include
- Receiving an annual report on the work of Internal Audit
  - Approving Internal Audit's strategy, planning and monitoring performance
  - Receiving the results of the Quality Assurance and Improvement Programme from the Head of Audit and Risk
- 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 Head of Audit & Risk to deliver an annual audit opinion and report that 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 Internal Audit 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 2017/18 Internal Audit Plan has been substantially achieved and key 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 Head of Audit & Risk to give a reasonable assurance that the internal control systems are operating effectively within the Council and its significant partnerships.

**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 Accounts and Audit Regulations 2015
- 4.2 Internal Audit Plan 2017/18
- 4.3 CIPFA SOLACE Delivering Good Governance in Local Government
- 4.4 Public Sector Internal Audit Standards 2013

**5     LIST OF APPENDICES**

- 5.1 Appendix A – Internal audit annual report and opinion 2017/18



# NOTTINGHAM CITY COUNCIL

## INTERNAL AUDIT ANNUAL REPORT AND OPINION

### 2017-18

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Date: 5 June 2018

#### Contents

1. Introduction
2. Head of Internal Audit Opinion
3. Basis of Opinion
4. Quality Assurance & Improvement Plan
5. Internal Audit Plan 2018-19

- Appendix A List of Final Audit Reports Issued Q4
- Appendix B Executive Summaries Q4 Audit Reports
- Appendix C Internal Audit Plan 2018-19
- Appendix D Final Reports Issued 2017-18
- Appendix E External Assurances
- Appendix F Levels of Assurance Definitions & Classification of Internal Audit Recommendations

# 1. Introduction

## Internal Audit and the Annual Reporting Process

- 1.1 The Council has a duty to maintain an adequate and effective system of internal audit of its accounting records and internal control. The Public Sector Internal Audit Standards (PSIAS) are the mandated professional standards for internal audit in local government and govern the work undertaken by the Internal Audit Service.
- 1.2 The PSIAS sets out the requirement for the Chief Audit Executive (Head of Audit and Risk) to provide an annual internal audit report with an overall opinion that can be used by the organisation to inform its governance statement. The Internal Audit Charter and the Council's Financial Regulations re-inforce this requirement.
- 1.3 The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The opinion must be supported by sufficient, reliable, and relevant information.
- 1.4 The following report provides a summary of the internal audit activity undertaken throughout the year and provides a basis for the objective assessment of the organisation's control environment to support the annual internal audit opinion.

## Report Preparation

- 1.5 This report draws upon a number of sources including:
  - Internal Audit Assignments, which will include prioritised audits from the Annual Audit Plan that are risk-based and unplanned work/consultancy that occurs throughout the year.
  - Discussions with senior management, including Director of Strategic Finance / Section 151 Officer.
  - Investigations into suspected fraud that may highlight fraud as well as control issues.
  - Risk & Governance which includes a review of the risk management arrangements across the council, a view on the governance arrangements in place as we undertake our work within NCC and its partners and the information gathered by us to form the Annual Governance Statement (AGS).

## **2. Head of Internal Audit Opinion 2017/18**

- 2.1 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 2017/18 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 2017/18 financial year, covering financial systems, risk and governance, the Head of Internal Audit 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.
- 2.1.1 However, it is clear from the last 2 years' budget outturns that the financial control framework whilst it remains robust is under stress. We will prioritise additional activity in 2018-19 to identify issues within financial control to assist management in maintaining the effectiveness of the framework. As might be expected in an era of frequent change, reorganisations and cuts, our audits have highlighted system weaknesses in some areas and compliance issues. We will aim to review key areas of compliance during 2018-19.

## **3. Basis of Assurance for the Annual Audit Opinion**

### **3.1 Confirmations – Resources and Limitations of Scope**

- 3.1.1 Members of the team hold various qualifications including ACCA, AAT and PINS. Colleagues participated in personal development reviews and most received a minimum of three days training. The 2017/18 audit plan contained 2157 days and I am satisfied that there were adequate staffing resources available to me to deliver the plan.
- 3.1.2 The PSIAS require that the Head of Audit and Risk must confirm to the Audit Committee at least annually regarding the organisational independence of the internal audit activity. The Internal Audit Charter and the council's Financial Regulations re-inforce this requirement.

- 3.1.3 The Charter specifies that the Head of Audit and Risk must report to a level within the council that allows internal audit to fulfil its responsibilities. Appropriate reporting and management arrangements are in place within NCC that preserve the independence and objectivity of the Head of Audit and Risk who has direct reporting access to the Chief Executive, the Chair of the Audit Committee and all councillors, as he considers appropriate.
- 3.1.4 The reporting and management arrangements in place are appropriate to ensure the organisational independence of the internal audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. Nothing has occurred during the year that has impaired my personal independence or objectivity nor has there been any inappropriate scope or resource limitations.

## **3.2 Review of the Year**

### **Reports to Audit Committee**

- 3.2.1 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. The following summarises the information the Committee has received from the Head of Internal Audit during the last year.
- Annual Governance Statement and Update
  - Updates for Review of Best Practice for Companies Governance
  - Internal Audit Quarterly Reports
  - Internal Audit Reports Selected for Examination
  - Role of Audit Committee and Work Programme
  - Internal Audit Charter
  - Internal Audit Annual Report
  - Internal Audit Annual Plan
  - East Midlands Shared Services (EMSS) Annual Report and Head of Audit & Risk Assurance
  - Counter Fraud Strategy
  - Audit Committee Terms of Reference and Work Plan

- Committee Member training

### Local performance Indicators

3.2.2 The table below illustrates how the service has met its key quality and output objectives reflected in its Charter and agreed by the Committee.

TABLE 2: PERFORMANCE OUTTURN				
Indicator		Target	Actual Year	Comments
1.	% of all recommendations accepted	95%	100%	Above Target
2.	% of high recommendations accepted	100%	100%	
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	Achieved
5.	% of colleagues receiving at least three days training per year	100%	82%	
6.	% of customer feedback indicating good or excellent service	85%	98%	Above Target

## 2017/18 Audit Plan

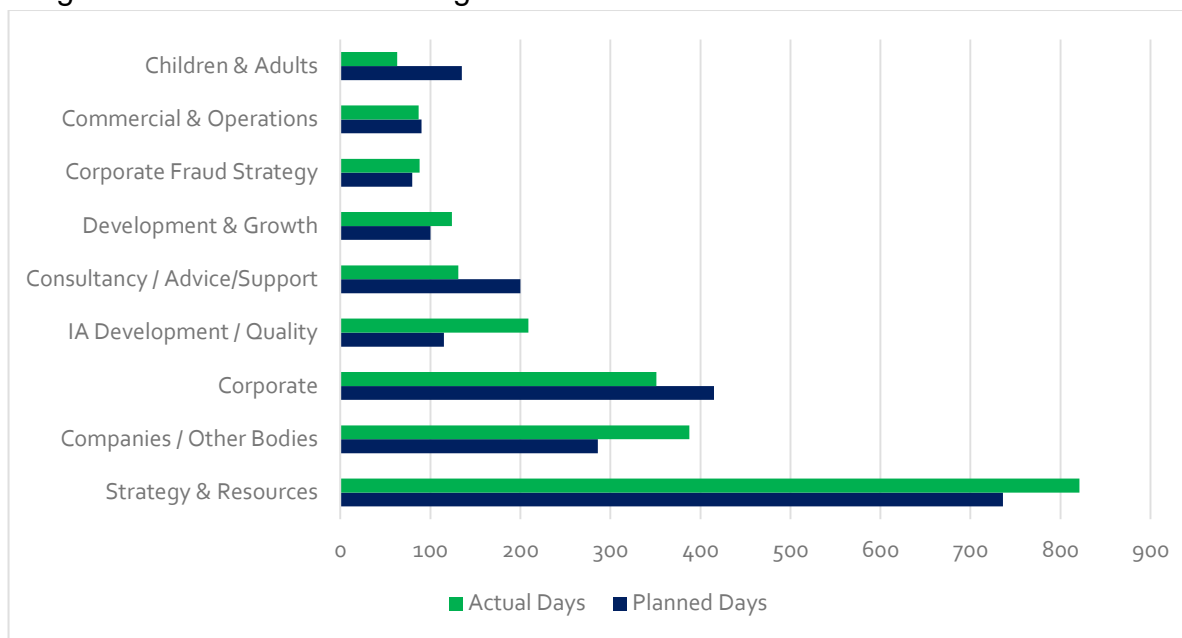
- 3.2.3 The Audit Plan and quarterly monitoring reports were presented to the Committee throughout the year, detailing progress against the Plan. The details of the audits finalised in quarter 4 are provided within appendices A and B and a list of all finalised audit reports are provided in Appendix D.
- 3.2.4 The final outturn for 2017/18 is summarised in the table below that shows the outturn against planned resources. This illustrates that there was no significant variation from plan endorsed by the Committee.

Internal Audit Plan against Actual

Audit Title	Planned Days	Actual Days
Strategy & Resources	736	821
Companies / Other Bodies	286	388
Corporate	415	351
IA Development / Quality	115	209
Consultancy / Advice/Support	200	131
Development & Growth	100	124
Corporate Fraud Strategy	80	88
Commercial & Operations	90	87
Children & Adults	135	63
Total Days	2157	2262

- 3.2.5 The audit coverage across all clients/areas is shown in the following diagram:

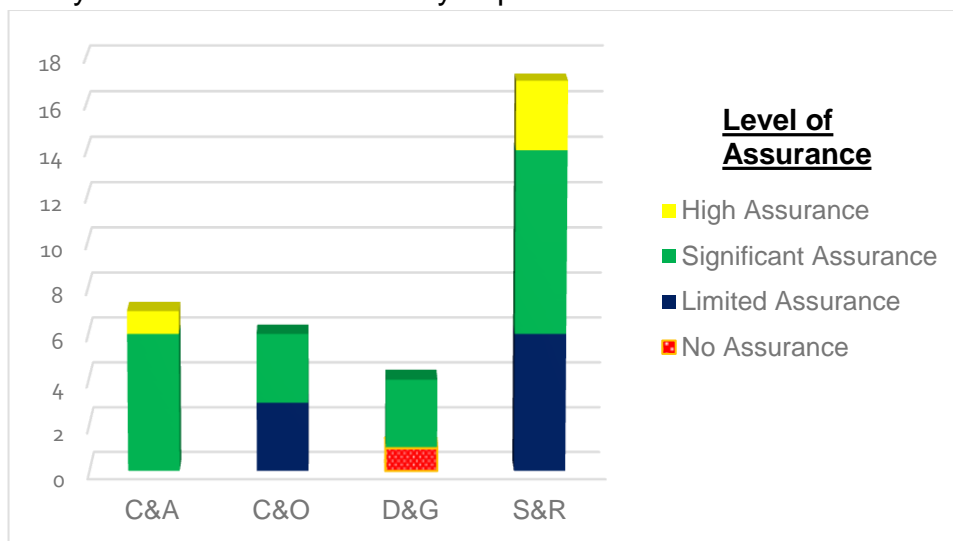
Diagram 1 Internal Audit Plan against Actual



### Levels of Assurance Given in Audit Reports

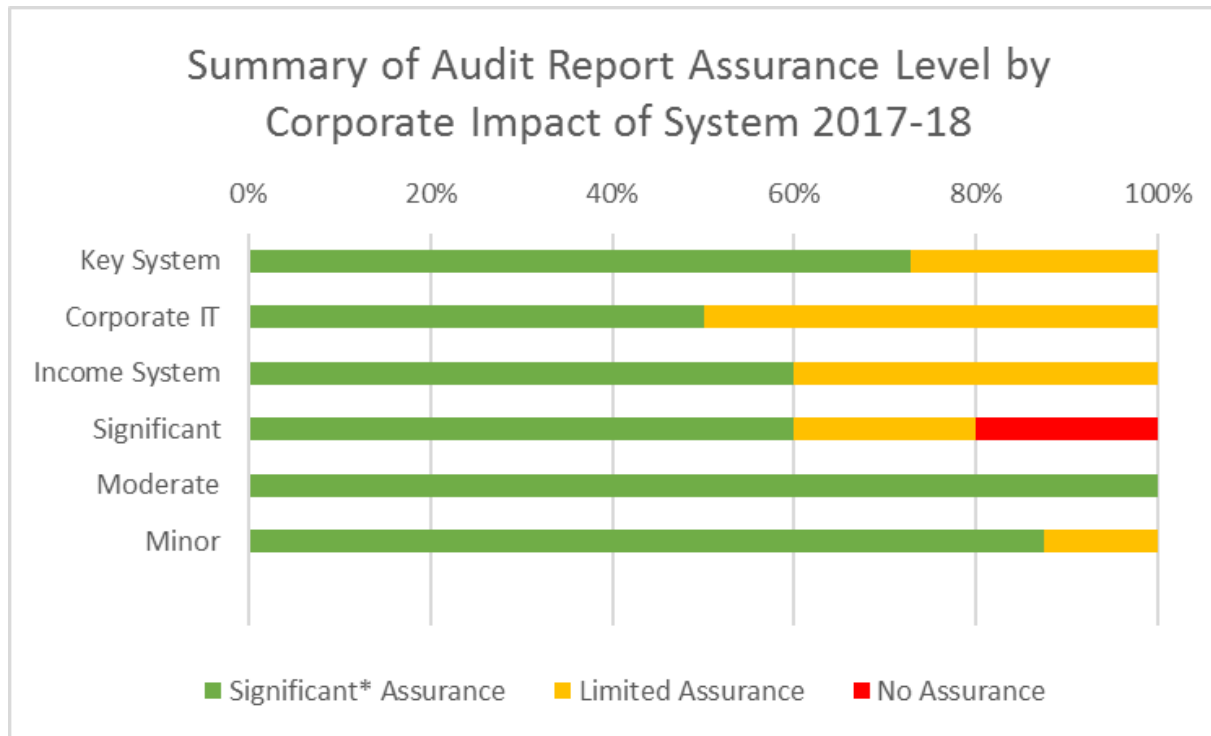
3.2.6 The committee sees details of all reports, levels of assurance and the associated recommendations as part of its annual work programme. The levels of assurance are attached to each report and they range from 'No Assurance' to 'Significant Assurance'; these are defined in Appendix F. Below is an analysis of the reports issued to Corporate Directors during the year.

Analysis of assurance levels by department



- 3.2.7 During the year, we have audited one area that resulted in a 'No Assurance' opinion where we have highlighted weaknesses that may present a risk to the council. We provided a summary of this audit report to the Committee in February 2018, within which we provided a number of recommendations to improve the arrangements in place. Although significant to the specific control environment in place for the individual system that has been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the council's governance, risk management and control arrangement at the year end.
- 3.2.8 We have also analysed the outcomes by corporate impact as shown below in order to contribute to the Head of Audit & Risk's opinion.





### 3.3 Key Financial & Other Key Systems

#### Key Financial Systems

- 3.3.1 The opinion of the Head of Audit and Risk is informed significantly by the results of the audits of the council's key financial systems. Our reviews of the key financial systems and other financial control audits support the opinion. The coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice.

## **Procurement**

- 3.3.2 We have carried out a review of the procurement arrangements both centrally and within directorates. The review concentrated on adherence to EU legislation and the Council's Financial Regulations / Contract Procedure Rules (CPR's). The review indicated that improvements are required by departments to ensure that up to date market testing occurs and that adherence to the corporate regulations and rules occurs to provide assurance that value for money is being obtained.
- 3.3.3 We have completed a review of the use of the council's corporate purchasing card with a view to ensuring that users comply with the requirements to use the cards appropriately and that transactions are recorded and approved correctly. The results indicated that a proportion of users are not complying with the requirements for cardholders / authorisers, which creates additional work and may affect the recovery of VAT.

## **Risk Management**

- 3.3.4 We recently issued our draft report on Risk Management; this indicates that the organisation needs to embed risk management across the organisation and to provide resources to allow this to occur.

## **Information Governance / ICT**

- 3.3.5 The Council is dependent on information and technology to deliver its services and our work has been targeted to provide assurance over the areas of greatest risk.
- 3.3.6 Our work on the management of IT assets (hardware/software) indicated that whilst there are sound controls over the receipt, allocation and disposal of IT stock, there is a lack of information and control over assets once they have been issued.
- 3.3.7 Our review of the system to manage the software change process indicated that it was well-managed.

- 3.3.8 We followed up on the recommendations made in a previous IT Security Report and considered access controls relating to partner organisations and 3<sup>rd</sup> parties. The latest position highlighted the need to improve the take-up of training by colleagues.
- 3.3.9 The Council's arrangements for Cyber Security have recently been reported upon. We have highlighted a number of areas for improvement including the need for an Assurance Framework, an appropriate strategy, improved controls and a review of the budget available to recover from a cyber-related incident.
- 3.3.10 We have taken an initial view on the current ICT Governance arrangements in place. It is our view that there is room for improving the governance framework in place including enhancement of the ICT Strategy, reporting of risk and performance and monitoring of ICT investment.

### **Performance**

- 3.3.11 Each year we undertake a review of a selection of corporate performance indicators that underpin the Council's Plan. This review highlighted the need to improve the quality checking / approval process and the need to report progress externally.

### **3.4 Other Risk Based Audits**

- 3.4.1 We have completed a review of Property Acquisitions which included the Investment Strategy, risk management and adherence to the process. Our review demonstrated that there was effective control over the acquisitions process but scope for improving the governance and risk management arrangements.
- 3.4.2 We have undertaken review of the Council's recruitment and staff retention arrangements. This has provided good results in respect of the adherence to policies and procedures but has highlighted the need to improve the take up of training by managers.

### **3.5 Grants**

- 3.5.1 Over time, there has been an increasing requirement for our involvement in the sign-off of grants which is reflected in the Audit Plan. Over 2017/18 a number of grant certifications were subject to routine sign off by Internal Audit and we have undertaken a review of EU Funding. There are no significant issues to report.

### **3.6 Fraud and Whistleblowing**

- 3.6.1 Internal Audit includes a Corporate Counter Fraud Team (CCFT) that was established to investigate suspected financial irregularities, conduct pro-active fraud exercises and ultimately, save the council money.
- 3.6.2 The team has a cashable income/savings target of £400,000 for 2017/18, which was exceeded. During 2017/18, CCFT undertook several proactive exercises in relation to Business Rates including charitable reliefs, listed buildings, void/empty properties and retail parks, which resulted in an increased liability of over £824,000.
- 3.6.3 The team has carried out a further exercise looked at every request for a single person discount (SPD) for Council Tax from citizens where the request asked for SPD to be granted back over 6 months. These investigations have has resulted in increased council tax liability of £60,000.
- 3.6.4 CCFT works with partners, for example, assisting Nottingham City Homes (NCH) in relation to tenancy fraud issues and the vetting of the applications to the Council's Right to Buy Team. This work has resulted in many properties being reclaimed by NCH and stopped several fraudulent RTB applications. Estimated savings are in the region of £96,000.
- 3.6.5 The proactive work includes responding to the National Fraud Initiative (NFI) outputs, which are the result of data matching specific sets of data. This process prompts investigations and where appropriate prompts discussions regarding systems weaknesses and the potential for fraud.
- 3.6.6 Internal Audit acts as a first point of contact for most whistleblowing concerns and supports the Council's Monitoring Officer who is ultimately responsible for managing the complaints received.

- 3.6.7 We assess all reported irregularities or whistleblowing concerns that are consequently investigated by ourselves, the relevant directorate or HR colleagues, as appropriate.

### **3.7 Follow-Up of Recommendations**

- 3.7.1 The Committee sees summaries of all reports issued and the associated 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. Our programme of activity to follow-up recommendations during 2017-18 year has identified a good response from client departments.

### **3.8 External and Other Assurance Providers**

- 3.8.1 We have reviewed information from external providers of assurance during 2017/18 and identified further requirements in order to be able to assess the assurance concerns identified. These are found within Appendix E.
- 3.8.2 NCC wholly owned companies have been audited with respect to 2016/17 and are currently being audited for 2017/18. We rely upon the assurance provided and where appropriate follow up any issues identified.
- 3.8.3 During the year we were commissioned by the Audit Committee to identify best practice of governance in respect of NCC companies. Consultations have included s151 Officer and Corporate Leadership Team (CLT). We would expect to be completing more work in this area during 2018/19.
- 3.8.4 Corporate Directors and statutory officers have provided an assurance statement supporting the AGS for 2017/18. 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 those carried out by the external auditor. The assurance is based around questionnaires developed from the CIPFA/SOLACE Framework for Corporate Governance. As a result of the review of the effectiveness of the governance framework, the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

### 3.9 Changes to Internal Audit Plan

3.9.1 There have been no major changes to the Audit Plan during the year.

## 4. Quality Assurance & Improvement Plan

4.1.1 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.

4.1.2 The Public Sector Internal Audit Standards (PSIAS) introduced a mandatory requirement for an external assessment of an organisation's internal audit function, which has to be completed once every five years by a qualified, independent reviewer from outside of the organisation. We completed a detailed self-assessment against the requirements of the standards, after which Birmingham City Council completed an external assessment in March 2017 and concluded that the section "mostly conforms to the requirements of the PSIAS." In 2017/18 we have re-run our self-assessment and concluded that the section mostly conforms with the requirements of the PSIAS.

4.1.3 The report produced by the team from Birmingham City Council was finalised with an agreed action plan. The recommendations from this report, along with improvements highlighted by our own self-assessment were combined into an Improvement Plan. We have been working on the requirements of the Improvement Plan during 2017/18 and to date we have no areas of non-conformance with the standards. We will continue to work on the following areas, that feature partial-conformance, throughout 2018/19:

- Audit Planning (further assurance mapping / develop greater use of other sources of assurance)
- Assessment of NCC's risk management processes (subject to improvement of risk management arrangements)
- Audit of outside organisations (development of protocol)
- Annual Internal Audit Report (further development of reporting)

- Documentation (consistency/retention)

4.1.4 Actions that still require improvement include the need for an Assurance Framework to be developed by the Council and reported to the Audit Committee. The requirement for the framework has been raised with some key service areas during the year and expect them to report to the Audit Committee at a later date. This is a work in progress and we will continue to encourage the organisation and its constituent parts to formalise their assurance arrangements.

4.1.5 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.

## **5. Internal Audit Plan 2018-19**

5.1.1 The number of days allocated in the plan to provide the Head of Internal Audit with the necessary evidence for the opinion on the control environment is 2302, which includes the resources required to provide internal audit services to external clients. A summary of the IA Plan for 2018/19 is provided in Appendix C of this report.

5.1.2 As with previous years, the plan was compiled in consultation with stakeholders across the council and has taken into account our professional judgement, our assessment of risk and the requirements of external auditors. The plan is centered on the need to align audit activity to Council objectives and to meet the requirements of effective corporate governance, including the Annual Governance Statement (AGS).

**Final Audit Reports issued 1<sup>st</sup> January to 31<sup>st</sup> March 2018**


**Appendix A**

Department	Division	Activity	Level of Assurance	Accepted recommendations		
				High	Medium	Low
C&A	Education	Haydn Road Primary School	Significant	0	2	1
		Troubled Families Grant 2016-17	Significant	0	0	1
C&A Total				0	2	2
C&O	Sports, Culture & Parks	Libraries Income	Significant		1	1
		Nottingham Castle	Limited	1	1	0
C&O Total				1	2	1
D&G	Economic Development	Nottingham Jobs Fund	Significant	0	1	0
D&G Total				0	1	
S&R	Org.Transformation	Recruitment & Retention	Significant	2	6	1
	Strategic Finance	Bank Reconciliation	Significant	0	2	2
		Council Tax	Significant	0	7	6
		Highfields & Harvey Hadden year ended Mar 2017	Charity account	0	0	0
		Main Accounting	High	0	0	0
		NCC Payroll Testing	Significant	1	1	0
		Treasury Management	Significant	0	1	3
		NNDR	Limited	1	12	5
Strategy and Resources Total				4	29	17
Grand Total				5	34	20

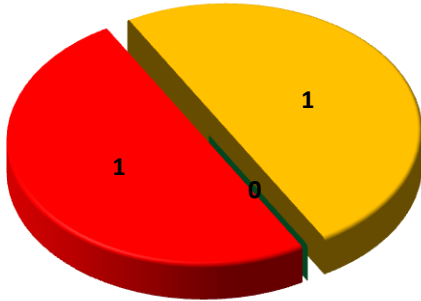


## Nottingham Castle Transformation

### Executive Summary

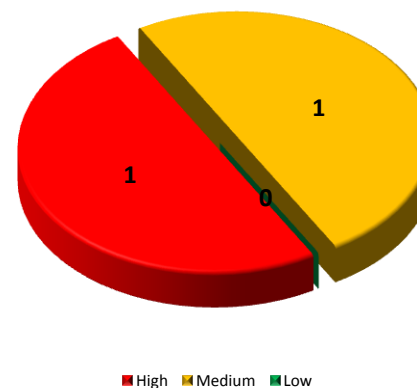
Organisation: Nottingham City Council Directorate: Commercial & Operations Previous review: No previous review	<b>Overall Opinion:</b> <b>Limited Assurance</b> 	Direction of Travel: Not applicable
<u>Scope and Approach:</u> The objective of this review is to assess the controls in place relating to the relocation of the collections and to provide management with an independent opinion of the effectiveness of these controls.		
<b>High Priority Recommendations</b>  R1 We understand that work required by the Council's specialist insurer has not yet been completed and that the Museums Service does not yet have full possession of the new units for storage of the Collections.		

**Summary of the recommendations by priority**



Priority	Count
High	1
Medium	1
Low	0

**Summary of the recommendations by priority**



## Recruitment and Retention 2017-18

### Executive Summary

<div>Organisation: Nottingham City Council</div> <div>Directorate: Human Resources &amp; Transformation</div> <div>Previous review: October 2016</div>	<div>Overall Opinion:</div> <div>Significant Assurance<div></div></div> <div>Scope and Approach:</div> <div><div><div></div><div></div><div></div><div></div><div></div><div></div></div><div><div>Follow up of previously raised recommendations</div><div>Policies and procedures are compliant with regulations and fit for purpose</div><div>HR recruitment and retention processes are effective and operating as intended</div><div>Recruitment is delivering against wider initiatives, for example in relation to diversity and anti-discriminatory policies</div><div>The Council's arrangements to attract and retain talent, including an assessment of the staff reward, appraisal structures, succession planning and training opportunities</div><div>Employees' records are kept complete, up-to-date and secure from unauthorised access</div></div></div>	<div>Direction of Travel:</div> <div></div>
<div>High Priority Recommendations</div> <div><div><div>R5</div><div>Hiring Managers should ensure that evidence of the decision making process is available.</div><div>Interview notes should be always signed, fully completed and retained for the period of 12 months.</div><div>Evidence demonstrated by the candidate at the test and interview stages should be objectively assessed, by each panel member independently, assigned the appropriate rating and recorded on the summary sheet.</div><div>R9 - R &amp; R should monitor the completion of the required training for new starters.</div><div>Health &amp; Safety training should be listed as mandatory on the Learning Zone, and completion should be corporately monitored.</div></div><div><div>Summary of the recommendations by priority</div><div><div></div><div></div><div></div></div><div><div>7</div><div>2</div><div>1</div></div><div><div>High</div><div>Medium</div><div>Low</div></div></div></div>		





## Payroll 2017/18

### Executive Summary

<div>Organisation: Nottingham City Council</div> <div>Directorate: Strategy &amp; Resources</div>	<div>Overall Opinion:</div> <div>Significant Assurance<div></div></div>	<div>Direction of Travel:</div> <div>No Change<div></div></div>
<div>Previous review:</div> <div>HR &amp; Payroll 2016/17</div> <div>HR &amp; Payroll 2015/16</div>	<div>Scope and Approach: This review considered the following aspects:</div> <div><div></div><div>Input and authorisation of casual employee payments</div><div>Periodic verification of establishment</div><div>Follow up of previous recommendations</div></div>	
<div>High Priority Recommendations</div> <div>No Recommendations were made and all previous recommendations have been completed</div> <div><div><div><div>Summary of recommendations by priority</div><div><div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div><div><div></div><div></div><div></div></div></div> <div><div></div><div></div><div></div></div> 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## Council Tax and Business Rates

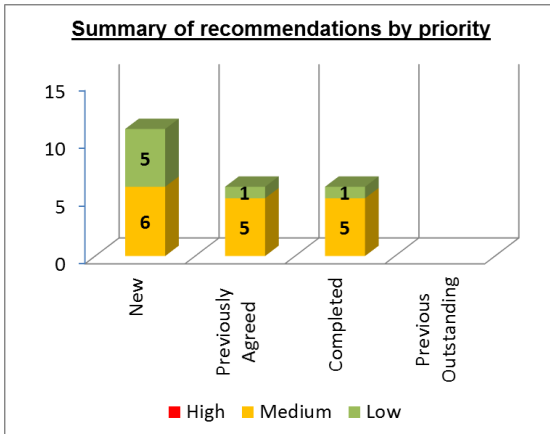
### Executive Summary

<p>Organisation: Nottingham City Council</p> <p>Directorate: Strategy &amp; Resources</p>	<p>Overall Opinion:</p> <p>Council Tax - <b>Significant Assurance</b> </p> <p>Business Rates</p> <p><b>Limited Assurance</b> </p>	<p>Direction of Travel:</p> <p>Council Tax - No change </p> <p>Business Rates</p> <p>Deteriorates </p>
<p>Previous reviews:</p> <p>May 2016</p>	<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"><li>• The 2015-16 close-down process and transfer of balances to new year</li><li>• Opening debit for 2016-17</li><li>• Review the timetable for reviewing discounts and exemptions</li><li>• Review of in year write-offs</li><li>• Reconciliation of Council Tax and NNDR to cash receipting and to the ledger</li><li>• The effectiveness of NNDR property inspections taking into account the potential for increases in income.</li><li>• NRB contract management</li></ul>	

<p>High Priority Recommendations</p> <p>1. Management should install and promote a rigorous and robust regime over the inspection process to enable the Council to benefit from increased income as highlighted by the CCFT investigations.</p>
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Council Tax

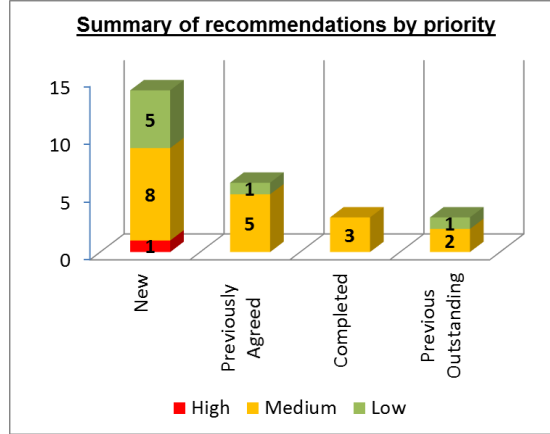
Summary of recommendations by priority



Category	High	Medium	Low
New	0	6	5
Previously Agreed	0	5	1
Completed	0	5	1
Previous Outstanding	0	0	0

Business Rates



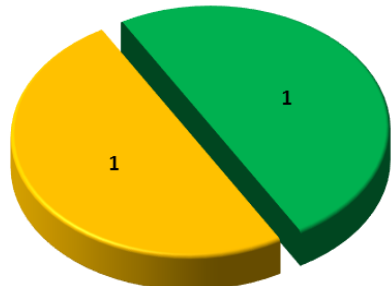
Summary of recommendations by priority



Category	High	Medium	Low
New	1	8	5
Previously Agreed	0	5	1
Completed	0	3	0
Previous Outstanding	0	2	1


# Haydn Primary & Nursery School

## Executive Summary

<p>Organisation: Haydn Primary &amp; Nursery School</p> <p>Date of Review: 22 March 2017</p> <p>Summary: We consider that the arrangements in place within the school are satisfactory and provide sound systems of control. Only two recommendations have been made in this report. It is noted that most of the recommendations made are of minor points and that overall the School has very good procedures in place.</p>	<p>Overall Opinion</p> <p><b>Significant Assurance</b> </p> <p>Direction of Travel:</p> <p>Previous Audit Report 1 April 2014 Significant Assurance </p>
<p>Scope and Approach: The scope of this review was limited to;</p> <p>Leadership &amp; Governance, People Management, Policy &amp; Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Single Status, Website</p>	
<p>High Priority Recommendations:</p> <p>None to report</p> <div data-bbox="1276 813 1850 1292"> <p><u>Summary of the recommendations by priority</u></p>  <p>■ High ■ Medium ■ Low</p> </div>	

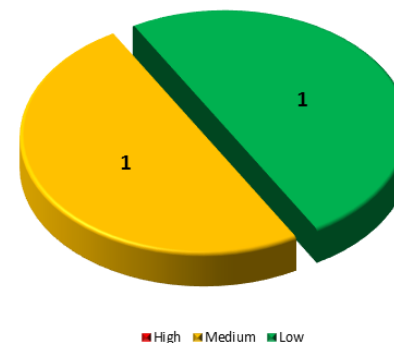
## Libraries Income

### Executive Summary

<p>Organisation: Nottingham City Council Directorate: Commercial &amp; Operations</p> <p>Previous review: There has not been a review in this area for some time.</p>	<p>Overall Opinion: <b>Significant Assurance</b></p> 	<p>Direction of Travel: N/A</p>
<p>High Priority Recommendations: There are none to report</p>		



- Scope and Approach: This review considered the following aspects:
- Review processes and written guidance relating to income
  - Review records of income received / invoiced
  - Review reconciliations of income received to receipt into bank
  - Review debt management records

**Summary of the recommendations by priority**

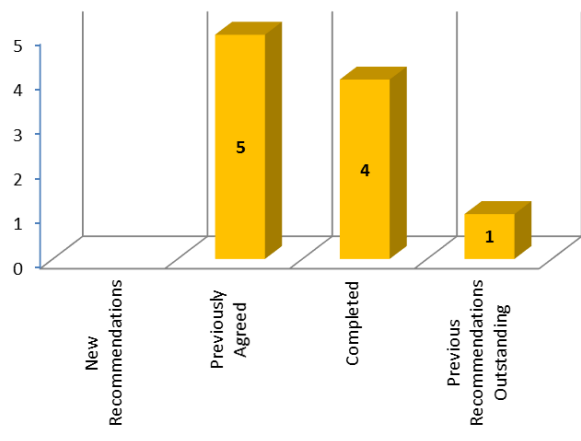


## Nottingham Jobs Fund

### Executive Summary

<p>Organisation: Nottingham City Council</p> <p>Directorate: Economic Policy &amp; Partnerships</p> <p>Previous reviews: Nottingham Jobs Fund 2016/17</p> <p>24 October 2016</p>	<p>Overall Opinion:</p> <p><b>Significant Assurance</b></p> 	<p>Direction of</p> <p>T r a v el:</p> 
	<p><u>Scope and Approach:</u></p> <p>Follow up of the recommendations made in the 2016/17 report</p>	
<p>High Priority Recommendations.</p> <p>None to report.</p>		



**Summary of recommendations by priority**



Category	High	Medium	Low
New Recommendations	0	0	0
Previously Agreed	0	5	0
Completed	0	4	0
Previous Recommendations Outstanding	0	1	0

## Bank Reconciliation 2017-18

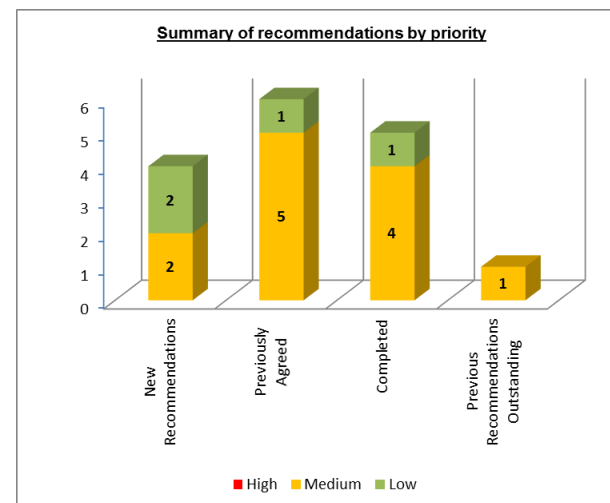
### Executive Summary

<p>Organisation: Nottingham City Council Department: Strategy &amp; Resources</p> <p>Previous review: Bank Reconciliation 2016-17 (22<sup>nd</sup> February 2017)</p>	<p>Overall Opinion:</p> <p><b>Significant Assurance</b></p> 	<p>Direction of</p>  <p>Level:</p> <p><b>No Change</b></p>
	<p><u>Scope and Approach:</u> This review considered the following aspects of the bank reconciliation process:</p> <ul style="list-style-type: none"> <li>• The reconciliation of the General Bank Account, Oracle BACS, Oracle Cheques, NCC GDBC and CIVICA Paying in Slip Control</li> <li>• Management and review of automated income management system (Civica)</li> <li>• Follow up of recommendations raised during 2016/17 Internal Audit review</li> </ul>	





## High Priority Recommendations

There are no high priority recommendations



## Main Accounting 2016/17



### Executive Summary

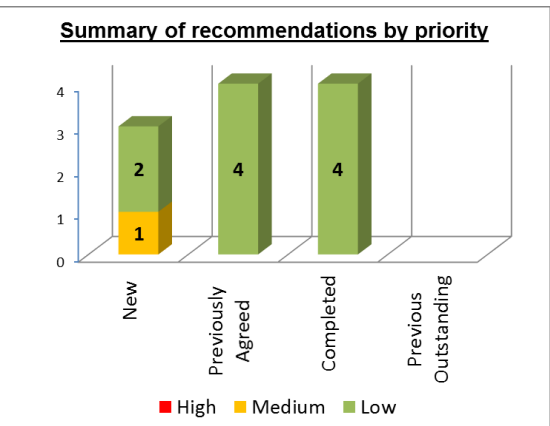
<p>Organisation: Nottingham City Council Directorate: Strategy and Resources</p> <p>Previous reviews: Main Accounting 2015 3 November 2015</p>	<p>Overall Opinion:</p> <p><b>High Assurance</b></p> 	<p>Direction of Travel:</p> <p>There has been no material change in the level of control since our last review</p> 
	<p><u>Scope and Approach:</u></p> <p>The scope for this audit review was as follows:-</p> <ul style="list-style-type: none"> <li>Review documentation of the systems and controls in place, ensuring that the controls are adequate to mitigate the main risks.</li> <li>A review of the work carried out by the Central Finance Team,</li> </ul>	

	<p>including the supporting processes in respect of ledger and interface integrity monitoring</p> <ul style="list-style-type: none"> <li>• The processes operated by departmental finance staff in respect of journal input.</li> <li>• The expectations of NCC external auditors in terms of expected key controls</li> </ul>
<p>High Priority Recommendations:</p> <p>None to report</p>	

## Treasury Management

### Executive Summary

<p>Organisation: Nottingham City Council</p> <p>Directorate: Strategy &amp; Resources</p>	<p>Overall Opinion:</p> <p><b>Significant Assurance</b> </p>	<p>Direction of</p> <p>T r a n s a c t i o n s a v e l: </p>
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<p>Previous review:</p> <p>12<sup>th</sup> May 2017</p>	<p><u>Scope and Approach:</u></p> <p>The scope of this review will consider the following aspects of the system:</p> <ul style="list-style-type: none"><li>• Treasury Management complies with the legislation and CIPFA Code of practice to include borrowing and lending activities</li><li>• The existence of an agreed Treasury Management strategy that follows CIPFA Treasury management code</li><li>• A review of current processes to ensure the Treasury Management strategy is complied with</li><li>• A review of Treasury Management activities to ensure that they are correctly recorded in the accounts</li><li>• A review of the Investment Strategy including debt repayment</li><li>• A review of prudential indicators and limits</li><li>• A review of controls in place to ensure that investment opportunities are appropriately identified and a sound authorisation process is applied.</li><li>• The existence and coverage of fidelity guarantees for all appropriate staff.</li></ul>																				
<p>High Priority Recommendations</p> <p>None</p>	<p><u>Summary of recommendations by priority</u></p>  <table><thead><tr><th>Category</th><th>High</th><th>Medium</th><th>Low</th></tr></thead><tbody><tr><td>New</td><td>1</td><td>0</td><td>2</td></tr><tr><td>Previously Agreed</td><td>0</td><td>0</td><td>4</td></tr><tr><td>Completed</td><td>0</td><td>0</td><td>4</td></tr><tr><td>Previous Outstanding</td><td>0</td><td>0</td><td>0</td></tr></tbody></table>	Category	High	Medium	Low	New	1	0	2	Previously Agreed	0	0	4	Completed	0	0	4	Previous Outstanding	0	0	0
Category	High	Medium	Low																		
New	1	0	2																		
Previously Agreed	0	0	4																		
Completed	0	0	4																		
Previous Outstanding	0	0	0																		

Audit Title	Planned
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	Days
<b>Governance</b>	180
<b>Organisation</b>	85
<b>Key Financial Systems</b>	126
<b>Procurement &amp; Projects Programme Management</b>	290
<b>Big Ticket / Risk Based Service Reviews</b>	205
<b>Compliance / Challenge</b>	265
<b>ICT and Information Governance</b>	106
<b>Counter Fraud</b>	380
<b>Corporate Fraud Strategy</b>	100
<b>Companies / Other Bodies</b>	305
<b>Consultancy, Advice and Support</b>	140
<b>Development , Redesign &amp; Quality</b>	120
<b>Total Days</b>	<b>2302</b>

Title	Level of Assurance
Budgetary Control	High*
*Hempshill Hall Primary School	High*
Main Accounting 2016-17	High*
Treasury Management 2016-17	High*
Accounts Receivable	Significant
Bank Reconciliation 2017-18	Significant
Change Management 2017	Significant
Corporate Maintenance Follow-Up	Significant
Council Tax 2016-17	Significant
EU Projects	Significant
Haydn Road Primary School	Significant
IT - Mobile Phones	Significant
Libraries Income	Significant
Meals at Home	Significant
NCC Payroll Testing 2017-18	Significant
NCC Response to the Casey Report	Significant
NCC Response to the Casey Report (Schools)	Significant
Nottingham Jobs Fund	Significant
Nottingham Nursery School	Significant
Parking Services	Significant
Recruitment & Retention	Significant
Right to Buy	Significant
Treasury Management 2017-18	Significant

Title	Level of Assurance
Troubled Families Grant 2016-17	Significant
Westglade Primary School	Significant
Fleet Management	Limited
Health & Safety Follow-Up	Limited
Income Collection 2017	Limited
IT Asset Management 2016	Limited
IT Security - Compliance & Environmental Controls	Limited
Nottingham Castle	Limited
Performance KPIs	Limited
Procurement 2017	Limited
Procurement Card 2016-17	Limited
Traffic & Safety Capital Projects	No Assurance
Disabled Facilities Grant	Grant
Grant - BSOG Reform Better Bus Areas	Grant
Grant - LA Bus Subsidy Ring-Fenced (Revenue)	Grant
Grant - Local Transport Grant	Grant
Growth Point 2016-17 Audit	Grant

## External Assurances

## Appendix E

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
CMA – Adult Social Care:	National: Indicates medium to long term sustainability issues	Identified activity in Procurement
CQC – Adult Social Care:	National: Nursing care shortage [increased up to 10% in Nottingham and Derby Apr15-17 but decreased up to 10% in surrounding counties]  Potential for fines for delayed transfer of care (nationally these are increasing) – partner relationships impacted  Rising staffing vacancy and turnover levels in adult social care	Some gaps confirmed by Procurement – Market Development reviewing  ASC transformation and work with the STP to reduce this risk  Procurement confirmations: Nottingham Jobs care workstream. Annual pricing review incorporates recruitment and retention. Commissioning models aim to maximise recruitment and retention.
Ofsted - Integrated Children's Services	National: Ofsted identifies requirements for social work to flourish and future arrangements for inspecting local authorities	This assurance is managed through the annual conversation with Ofsted. NCC participated in pilot inspection in 2017. A good assurance framework exists in this area.
SOCITM - ICT	National: Local Government Cloud Adoption in 2018 Cyber Guide June 2017 Policy briefing Shared service reports	We have a robust programme of work in this area to respond to best practice and developing concerns

### Levels of Assurance

We use three categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

<b>Significant Assurance</b>	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 may put the achievement of particular objectives at risk.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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.

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

### Categorisation of Recommendations

<b>High Priority</b>	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
<b>Medium Priority</b>	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
<b>Low Priority</b>	The audited body is not exposed to any significant risk, but the recommendation merits attention.



**AUDIT COMMITTEE – 22 June 2018**

Title of paper:		INTERIM ANNUAL GOVERNANCE STATEMENT 2017/18	
Director(s)/ Corporate Director(s):		Laura Pattman Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:		Shail Shah, Head of Audit & Risk, Tel: 0115-8764245 Email: <a href="mailto:shail.shah@nottinghamcity.gov.uk">shail.shah@nottinghamcity.gov.uk</a>	
Other colleagues who have provided input:			
Recommendation(s):			
1	To note the interim Annual Governance Statement 2017/18 set out in 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 Executive Board approved and adopted the CIPFA/SOLACE Framework as the City Council's Local Code of Corporate Governance on 20<sup>th</sup> May 2008. The CIPFA/SOLACE Framework guidance for implementing good governance was updated in 2016 by CIPFA / SOLACE to reflect a revision to the international framework in 2014. The City Council has incorporated this guidance in both the evaluation of its governance arrangements and in the production of its AGS. A previous version of guidance was adopted in 2012.
- 2.5 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 April 2018 meeting of this Committee. This interim statement is a precursor to the final statement, which will be brought to the July meeting of this Committee for approval alongside the Statement of Accounts.

- 2.6 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) / Director of Strategic Finance.
- 2.7 Assurance used in compiling the report was derived from several sources:
- Corporate Directors and other key colleagues including the Monitoring Officer, Section 151 Officer and the Head of Internal Audit 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.
- 2.8 In accordance with the Local Code of Corporate Governance the final AGS will be signed by the Leader of the Council, and Chief Executive, and will contain the following information:
- an acknowledgement of responsibility for ensuring that there is a sound system of governance;
  - an opinion on the level of assurance that the systems and processes that comprise the Authority's governance arrangements can provide;
  - a brief description and assessment of the key element of the governance framework, as it applied during the financial year, including those of significant groups or partners;
  - a brief description of the processes undertaken to develop, 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.
- 2.9 This statement maps the policies, procedures and initiatives the Council has put in place to address the governance issues embodied in its Local Code. Items of note have been included and where relevant events or developments after the end of the financial year.

### **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 CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2016
- 4.2 Accounts and Audit Regulations 2015
- 4.3 Executive Board 20 May 2008 – Local Code of Corporate Governance
- 4.4 Audit Committee Papers April 2017 – Annual Governance Statement - Progress Made To Date On Issues Reported 2016/17 And Process For Producing 2017/18 Statement

# Annual Governance Statement 2017/18

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## 1. NCC Responsibility for Implementing Good Governance

- 1.1. Nottingham City Council (NCC, 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.
- 1.2. 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.
- 1.3. The Council approved and adopted a code of corporate governance consistent with the principles of the 2016 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 in 2017/18 and also meets the requirements of the Accounts and Audit (England) Regulations 2015, which require all relevant bodies to review their system of internal control and prepare an Annual Governance Statement.
- 1.4. In addition the CIPFA Code of Practice on Local Authority Accounting requires reference to and assessment of the effectiveness of key elements of the governance framework, including group activities where the activities are significant, and the role of those responsible for the development and maintenance of the governance environment such as the authority, the executive, the audit committee and others as appropriate.

## 2. Purpose of the Governance Framework

- 2.1. Good governance helps the Council to set good objectives and achieve them
- 2.2. The guidance for implementing good governance was updated in 2016 by CIPFA / SOLACE to reflect a revision to the international framework in 2014 (see below). It places the attainment of sustainable economic, societal and environmental outcomes as a key focus of the governance structures and processes, and stresses the importance of taking account of the impact of current decisions and actions on future generations.

## 3. The Governance Framework

### Governance Principles & How NCC Aims to Meet Them

- 3.1. The diagram below, taken from the International Framework, illustrates the various principles of good governance in the public sector and how they relate to each other.

## Achieving the Intended Outcomes While Acting in the Public Interest at all Times



3.2. Various arrangements are in place to ensure that the Council complies with the local code of corporate governance. Some of these are listed in the table below.

<u>A. Behaving with Integrity</u>	
Councillors' and Co-opted Members' Code of Conduct	Employees' Code of Conduct
	Scheme of Delegation
Councillor / Officer Protocol	Performance Appraisal
Counter Fraud Strategy	Confidential Reporting Code
Registers of Interests, Gifts & Hospitality	Declaration of Related Party Transactions
<u>B. Openness and Engagement</u>	
Customer Charter	Consultations
Comments, Compliments and Complaints Policy	Partnership Governance Framework
	Citizens' Panel
Freedom of Information arrangements	

<u>C. Defining Outcomes (decision making)</u>	
2030 Vision	Constitution including <ul style="list-style-type: none"> <li>Responsibilities for Functions and Terms of Reference</li> <li>Councillors' and Co-opted Members' Code of Conduct</li> <li>Procedures and Standing Orders</li> </ul>
Metro Strategy	
Council Plan	
Nottingham Plan to 2020	
Business plans	
Decision-making protocols & records	
<u>D. Interventions</u>	
Performance Management Framework	Budget Monitoring
Early Interventions	
<u>E. Capacity and Capability</u>	
Member Induction & Training	Officer Induction
Performance Appraisal	Learning Zone
Peer Review	
<u>F. Risks and Performance</u>	
Risk Management Framework	Medium Term Financial Plan
Financial Regulations	Counterfraud team
<u>G. Effective Accountability</u>	
Annual Financial Statements	Partnership Governance Framework
Nottingham Plan Annual Report	External Audit and Inspection

### **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

- 3.3. The Council's Code of Conduct and Standards Committee arrangements were reviewed to reflect national requirements in the light of national provisions. In advance of the local elections in May 2015 the Council agreed that its code of conduct should be amended to require all councillors to have a DBS check within one month of election and to maintain that check during their terms of office as a councillor or otherwise be in breach of the code and disbarred from all offices and appointments. In addition, attendance at safeguarding training has been made mandatory. These additional provisions in the Code are designed to strengthen the Code and public confidence in councillors.
- 3.4. Councillors were briefed in detail at induction by the Council's Monitoring Officer about the Code of Conduct and what its provisions mean in practice. The Code of Conduct forms part of the Council's Constitution and in addition there is a Member/Officer protocol which is included in the Constitution to which all colleagues and councillors are alerted and have access which defines how councillors and officers should work together appropriately and the standards of personal behaviour and conduct expected. There is no formal code of conduct

performance management system for councillors – but early, and initially, where appropriate, informal referral and discussion of any issues/ complaints either from colleagues or from citizens by the Head of Democratic Services, or the Monitoring Officer, to the relevant group whip or the individual councillor concerned is effective and adequate in most instances. More serious matters would be investigated formally if required and referred to the Monitoring Officer in the first instance and then to the Standards Committee if appropriate.

- 3.5. Nottingham City Council aims to ensure that personal information is treated lawfully and correctly. The lawful and correct treatment of personal information is extremely important in maintaining the confidence of those with whom the Council deals and in achieving its objectives. During 2017-18 the Council has been preparing to meet the changed requirements of data protection legislation which will be introduced from 25<sup>th</sup> May 2018 under the General Data Protection Regulation and Data Protection Act 2018.
- 3.6. The Local Government Ombudsman report presented to Audit Committee identified a reducing level of complaints. The most frequent areas for complaints reflect the national picture. The level of upheld complaints was less than in the previous year and proportionate to the levels in the best performing similar authorities. This provides some confidence in the new complaints process reported last year.
- 3.7. As Head of Paid Service, the Chief Executive is ultimately responsible and accountable to the Council for all aspects of operational management.
- 3.8. The Council's establishment incorporates all posts required by statute. Two key roles are performed by the Monitoring Officer and Section 151 Officer. Both of these roles were handed over successfully in 2017 as a result of retirement. The roles of these officers are clearly defined in their job descriptions and summarised below.

Key Posts	Statutory	Summary of Role
Monitoring Officer		<p>This role was undertaken by Corporate Director of Resilience in during the first part of 2017, and from the end of June 2017 has been undertaken by Director of Legal &amp; Governance.</p> <p>Ensures that agreed procedures are followed including all applicable statutes, regulations and statements of good practice</p> <p>Manages arrangements for whistle blowing</p> <p>Ensures that professional advice is taken before making decisions with legal / financial implications, and reports to Boards and Committees include this advice</p>
Section 151 Officer	151	<p>Undertaken by the Director of Strategic Finance. The Council</p> <p>Provides the Council with advice on financial matters</p> <p>Manages the keeping of financial records and accounts</p> <p>Ensures that effective systems of internal financial control are maintained</p>



- 3.9. The Constitution and its appendices define the delegated roles and responsibilities of key post holders, the Leader and executive councillors and decision-making bodies of the Council in detail. NCC 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. The Leader approves and reports Changes to the Constitution including those to financial reporting for approval at a meeting of Full Council. The Monitoring Officer may make changes to the constitution to comply with the law.
- 3.10. The Council has set out budget and policy frameworks, which define how budget and policy decisions are made. These include setting each year's budget.
- 3.11. In order to ensure that the Council acts in the public interest at all times the Chief Executive has communicated expectations within a message map as part of the Council's Good to Great journey as follows

### Message Map



## **B. Ensuring openness and comprehensive stakeholder engagement**

- 3.12. The Council has a Research, Engagement and Consultation team that leads on corporate engagement for example the annual Citizens Survey. They also provide detailed advice and guidance on all aspects of research, engagement and consultation for colleagues across the authority. The team aims to analyse and publish results from internal and external consultations.
- 3.13. The Engage Nottingham Hub brings together consultation activity undertaken by Nottingham City Council and its partners and provides stakeholders with an opportunity to have their say on the issues they consider important, including the Citizens' Panel, Have Your Say, and Consultations. The hub contains information about individual consultations and it highlights the key findings which have come out of consultation activities
- 3.14. The Neighbourhood Management concept has been developed in Nottingham since 2007. Locality working is based on the key tenets that the local level is the most effective level at which to engage citizens and service users and fixing local problems, however small, has a profound effect on citizen's quality of life. The city has 20 Neighbourhood Action Teams (NATs) (one in each ward) headed up by a dedicated Neighbourhood Development Officer working in partnership with key agencies. Each NAT is closely linked to its ward city councillors and the appropriate City Council area committee (which comprise of two-three neighbouring wards). The NAT model is based on early intervention aiming to reduce citizens' need to engage with costly Council or health services unnecessarily. They work with citizens to actively shape services and their neighbourhoods, supporting social cohesion. The service is currently under review to ensure the work it has done to date can be sustained and for it to leave a legacy with a high degree of co-production of activities and delivery with citizens and partners.
- 3.15. Key Strategies are published on the Nottingham Insight website.
- 3.16. The Chief Executive and Corporate Directors engage with all staff and specific groups through various channels including the council's intranet, email newsletters, information screens and through managers. The Council also engages with its staff through the Colleague Opinion Survey, which is managed and reviewed by the Transformation and Change team.
- 3.17. Complaints can be made in various open and transparent ways including through the internet, councillors, the Director of the service or office responsible. Have Your Say is now managed through a dedicated Customer Relationship Management (CRM) system. Access to the Ombudsman is well publicised.
- 3.18. The Council's performance in respect of Freedom of Information and Environmental Information Regulations requests remains above the statutory target.
- 3.19. One Nottingham (ON) has adopted a Voluntary Sector Strategic Reference Group at the Voluntary Community Sector infrastructure agencies. An additional position has been introduced on the ON Board to enable effective representation of this interest group. ON has also introduced a complaints procedure. ON Board meetings are open to the public.



### **C. Defining outcomes in terms of sustainable economic, social, and environmental benefits**

- 3.20. The Council defines outcomes through a number of processes including agreeing a long-term vision, agreeing medium term and shorter term plans.
- 3.21. 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 is not subject to annual review and the associated Nottingham Plan was reprioritised in 2016 and is subject to periodic refresh.
- 3.22. 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
  - Safer Nottingham
  - Healthy Nottingham
- 3.23. The One Nottingham Partnership has reprioritised the Nottingham Plan targets to make the reporting processes more streamlined. In the light of this exercise, the One Nottingham Board agreed to receive periodic management reports of the targets and to concentrate on some areas in which they, as members of the Board and partners, are able to make the best impact and to which they can make a unique contribution. Regular performance reports on the progress in delivering Nottingham Plan objectives are provided to ON Board to review performance.
- 3.24. The ON Board has begun to consider the successor to the Nottingham Plan to 2020 which it is planning to base around aspirations and fairness/ and system change. It will do this with the support of partners and the One Nottingham Chief Officer group. Partners are expected to agree to the terms of the code of conduct.
- 3.25. The Derby-Nottingham Metro Strategy 2030 is a partnership between Nottingham and Derby City Councils, recently joined by Gedling Borough Council. The partnership is not a constitutional arrangement. Its aim is to identify activities where the councils can combine, with the overarching objective of building a global reputation for both cities as exciting places to live, work and play. An example of this is the delegation of commercial waste services by Derby City Council to Nottingham City Council.
- 3.26. The latest Council Plan, approved by councillors, sets out the Council's ambitions for the city over the 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
- 3.27. 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. On a monthly basis, the Corporate Leadership Team manages major changes, 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.
- 3.28. A corporate template was developed in 2016, which is followed by the majority of services in constructing their business plans. Business plans capture how the Council delivers the Council Plan objectives. 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. .
- 3.29. The 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. 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.
- 3.30. 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.
- 3.31. 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.
- 3.32. 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.

#### **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

- 3.33. The Corporate Leadership Team (CLT) manages major changes 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.
- 3.34. Progress monitoring of the Council Plan is undertaken quarterly through a series of exception reports to both CLT and Council Executive. Business plans are in place for all key Council services and the actions and performance indicators are monitored quarterly, reviewed, and refreshed on an annual basis.
- 3.35. The Council's Early Intervention approach provides integrated support to children, adults and families as soon as a problem begins to emerge or where there is a strong likelihood that problems will emerge in the future. In addition by focussing on root causes there is an aim to prevent or reduce future demand for specialist services bringing down costs in the long term.
- 3.36. During 2018 a renewed focus was given to review of performance data and commentary at departmental level, to improve the contribution of performance management systems to achievement of intended outcomes.
- 3.37. The Council's budget monitoring arrangements exist to identify variance from the financial plan at an early stage allowing appropriate intervention to take place to understand and correct performance.
- 3.38. During 2017-18 the Council has continued to restructure its operations to meet its responsibilities within the resources available.

#### **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

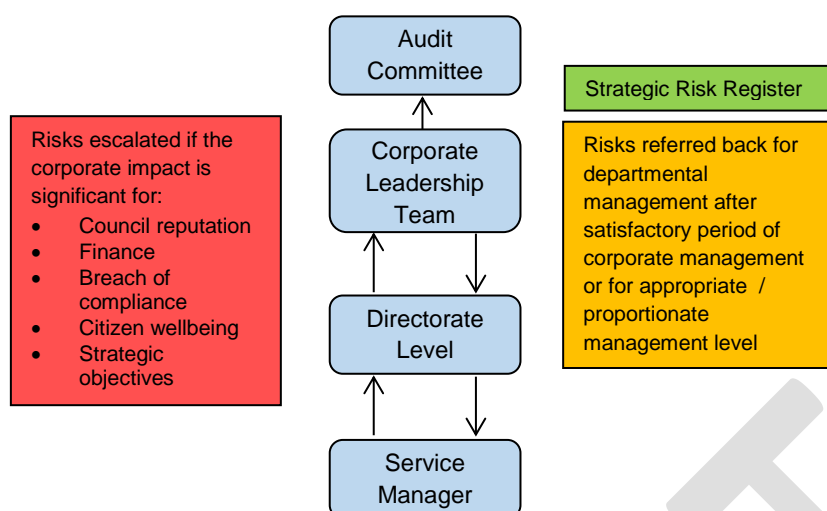
- 3.39. In May 2017, the Local Government Association were invited to conduct a Corporate Peer Challenge to help the Council validate its progress, review lessons learnt, identify improvements and help ensure it is on the right path to achieve this through its ambitious programme as set out in the Council Plan and transformation road map.
- 3.40. The Peer Team consisted of the Chief Executive of Leeds City Council, the Leaders of Newcastle City Council and Trafford Council along with other members of the Peer Challenge team the Local Government Association put together, interviewed a range of frontline staff, managers, Directors and Councillors over the course of the week. They also spoke to Leaders and Chief Executives from other councils and organisations who the Council works closely with.
- 3.41. The group looked at areas such as how the Council ensure it keeps citizens at the heart of our processes, how it supports older people in the city and whether the right systems are in place to continue the transformation to becoming a great council.

- 3.42. Initial feedback has been overwhelmingly positive, with the review team commenting that the Council clearly has a record of delivering priorities and innovating, and that Citizens at the Heart permeates the organisation. The full written report is expected late June 2017 and further details can be provided after then.
- 3.43. The Council holds all out elections every four years and the main councillor induction programme is delivered in the weeks following the election. Where a councillor is elected at a by-election an individual induction programme is held. Mandatory training as part of the induction includes training on safeguarding and on the Code of Conduct. The induction programme is developed by the Councillor Development Steering Group (CDSG) which is made up of cross-party Councillors and relevant colleagues. CDSG is currently planning an induction plan to be delivered after the next scheduled Council election in May 2019, basing it on the well-received programme delivered in 2015. As well as information/ training sessions the induction will also include an IT skills audit to support councillors in working electronically.
- 3.44. CDSG also manages the planning of in-year training for Councillors. Current planned training includes a range of 'on the front line' opportunities, training in GDPR and in the use of social media.
- 3.45. Following the adoption, in full, of the recommendations of the Independent Remuneration Panel in January 2017, a revised Members' Allowances Scheme was implemented from May 2017. Details of the scheme are published on the Council's website as part of the Constitution. Amounts paid to individual Councillors, including claims made under the scheme for the reimbursement of Travel, Subsistence and Carers' Allowances are checked on a monthly basis and payments are publicised in line with legislative requirements. A recent audit of Members' Allowances, conducted during March 2018, gave a rating of Significant Assurance (the highest awarded).
- 3.46. During 2017-18 the Council recruited to the key roles of Monitoring Officer and Section 151 Officer as a result of the retirement of both post holders. A handover process operated in both cases.

## **F. Managing risks and performance through robust internal control and strong public financial management**

- 3.47. The Council's Risk Management Framework and associated arrangements were revised during 2016/17. Following roll out of the Framework and Strategy workshops were undertaken with the Departmental Leadership Teams to review their current risk registers using the revised Framework as the consistent standard. Work continues to develop the departmental risk registers. CLT are engaged with identifying and managing corporate risk and risk workshops have been undertaken with each department and Corporate Leadership Team (CLT) to refresh the corporate risk register. The escalation process is shown diagrammatically as follows.

## Risk Reporting and Escalation Process



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

3.49. The Chief Finance Officer (CFO) is a professionally qualified accountant and has put in place mechanisms to ensure compliance with CIPFA's statement on the 'Role of the Chief Financial Officer in Local Government'. The CFO sits on the CLT and is able to contribute positively and influence 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
<b>Strategies</b>	<b>MTFS</b>					
		Income Generation Strategy	Capital Strategy & AMP	Treasury Management & Debt Repayment Strategies	Procurement Strategy	Risk Management Framework
<b>Guidance</b>	IFRS LAACOP CIPFA & technical guidance HMRC Tax Regulations	Budget Guidelines	Capital Guidelines	CIPFA Prudential Code for Capital Finance in Local Authorities & Code of Practice for TM	CIPS Procurement Toolkit	Risk Management Policy and Guidance
<b>Plans</b>	MTFP	Annual Budget	Capital Programme & AMP	Treasury Policy Statement	Procurement Checklist	Risk Responses
<b>Governance</b>	Constitution	Budget Management & Control statements & Local Code of Corporate Governance		Prudential Indicators & Annual Report	Contract & Finance Procedure Rules	Risk Register reporting and regular review



CATEGORY	OVERALL	REVENUE	CAPITAL	TREASURY MANAGEMENT	PROCUREMENT	RISK MANAGEMENT
	Financial Regulations and Standing Orders					Audit Committee Reports & annual report

- 3.50. The Chief Finance Officer is responsible for providing guidance on setting up companies. Corporate Directors and the Director for Public Health must seek approval from the Chief Finance Officer and Head of Legal before setting up a company or establishing formal relationships with any external organisation. Group companies each have their own board, which is responsible for the direction and governance of the company. The Council as shareholder has rights to nominate directors to these boards.
- 3.51. During 2017-18 work has been undertaken to ensure companies align their financial closedown with the NCC timetable and to identify a framework of best practice for governance of companies.
- 3.52. The Internal Audit work plan is aligned to the Council Plan and as part of the process to determine the plan Internal Audit consults with Corporate Directors and key stakeholders within the Council and its companies. Internal Audit mainly conforms to the Public Sector Internal Audit Service revised in 2016 and 2017. The arrangements for Internal Audit are set out in the Internal Audit Charter and the Constitution.
- 3.53. One Nottingham (ON) has adopted a risk register and looks at risk management in partnerships as part of its Partnership Governance Health Checks.

#### **G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

- 3.54. The Council has a website on which it publishes key information about decisions made and performance, including the results of external assessments. The council is compliant with the Department of Communities and Local Government's Transparency Code 2015, and continues to lead in proactively making datasets available for re-use, via the Open Data Nottingham portal, thereby providing continued commitment to the council's value of being open and transparent. A recent internal audit identified a positive direction of travel in terms of how the Information Rights & Insight Team review and make non-personal information available.
- 3.55. The Portfolio holder for the ON Board is familiar with the way ON works having been active in the partnership previously and takes part in regular briefings with the chair of the Board and Director of ON.
- 3.56. The Register of Significant Partnerships, a mechanism of the Partnership Governance Framework, records the status of each significant partnership and is updated annually.
- 3.57. The annual partnership health checks which are carried out with support from Internal Audit include a section to enable the significant partnerships to assess the robustness and clarity of their decision making and accountability, including that authority and delegations are set out in governing documents, including

- Who can make what decisions
  - Delegated responsibilities
- 3.58. A quarterly Statutory Officers meeting takes place to review key issues and arrangements. As highlighted in 3.9 above the monitoring Officer and Section 151 Officer are in place and fulfil their governance roles.
- 3.59. The Council complies with relevant statutory financial reporting processes and guidance including production of a published Annual Statement of Accounts.
- 3.60. Annual performance highlights are published in The Nottingham Arrow in the summer with quarterly summaries published on Nottingham Insight.
- 3.61. A data quality exercise was undertaken in 2016 on a small set of key performance indicators (that inform the Council Plan) and the intention is for all KPIs used in the Council Plan to be data assured by March 2019

### **Constitutional Bodies Dealing with Governance**

- 3.62. Overview and Scrutiny Committee takes an overview of key strategic issues relevant to Nottingham ensuring decision makers are held to account for their decisions and actions. It commissions review panels to deliver its work programme.

### **Audit Committee**

- 3.63. The Audit Committee regularly updates its programme of work in accordance with its terms of reference. It complies with CiPFA guidance on the role of Audit Committees. It monitors and approves arrangements for Internal Audit and Risk Management
- 3.64. The Audit Committee also receives external sources of assurance, departmental arrangements for assurance, risk management, key systems, governance audits, companies, partnerships, departmental audits, fraud
- 3.65. 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. The Council's arrangements for Internal Audit were externally assessed against Public Sector Internal Audit Standards in 2017 and the next external assessment is due in 2022

## **4. Review of Effectiveness**

### **Review Process**

- 4.1. 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 Internal Audit's annual report, and 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.

## Internal Audit

- 4.2. 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 Head of Audit & Risk (HoIA) produces an annual audit report and opinion summarising the effectiveness of the governance arrangements in place.
- 4.3. In 2017/18, 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. An independent review in 2017 confirmed the service mostly conformed to the detailed principles contained in the Public Sector Internal Audit Standards (PSIAS). An annual self-assessment process operates to maintain and improve compliance with PSIAS.
- 4.4. 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 2017/18 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. The HoIA has continued to develop the use of a corporate team to strengthen the counter fraud function.

## Head of Audit & Risk (HoIA) Opinion

- 4.5. The mandatory Public Sector Internal Audit Standards 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.
- 4.6. The IA service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee. The 2016/17 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.
- 4.7. 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.



- 4.8. Throughout 2017/18, 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 2017/18, which has included ICT work 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. Other sources of assurance has included the AGS Statement, Ombudsman Report, KPMG the Council's external auditor, and the partnership health check review. External assurance sources such as OFSTED, Care Quality Commission and Competition and Markets Authority have been reviewed and where necessary further information sought in order to assess these assurances.
- 4.9. 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 2017/18 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 2017/18 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.
- 4.10. However, it is clear from the last 2 years' budget outturns that the financial control framework whilst it remains robust is under stress. We will prioritise additional activity in 2018-19 to identify issues within financial control to assist management in maintaining the effectiveness of the framework. As might be expected in an era of frequent change, reorganisations and cuts, our audits have highlighted system weaknesses in some areas and compliance issues. We will aim to review key areas of compliance during 2018-19.

### **Other Assurance Activities**

- 4.11. Corporate Directors and statutory officers have provided an assurance statement supporting the AGS for 2017/18. 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 those carried out by the external auditor. The assurance is based around questionnaires developed from the CIPFA/SOLACE Framework for Corporate Governance.
- 4.12. In summary, the Council has reviewed its systems of internal control and those of group companies where the activities are significant and taken a comprehensive approach to considering and obtaining assurance from many different sources. As a result of the review of the effectiveness of the governance framework, 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.

## 5. Significant Issues

5.1. This 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.

5.2. Based on the definition there are no issues identified as significant for 2016/17. Issues considered worthy of noting are listed below

## 6. Issues Worth Noting and Actions Taken

6.1. 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:

### EMSS

6.2. The Partners (Nottingham City Council and Leicestershire County Council) created 'East Midlands Shared Services' (EMSS) to deliver back office services in 2011 and invested in Oracle e-business suite (EBS) as the enabling technology platform for both EMSS and the Partner's retained corporate functions. The Partners make use of a wholly owned shared service centre, the EMSS, which provides Finance, Procurement, HR and payroll services.

6.3. The Council has a positive relationship with EMSS and continues to work with them to identify system and process efficiencies for example, a new invoice scanning solution was introduced in 2017/18 which embraces developments in OCR (Optical Character Recognition) technology which has provided for a more efficient and effective Accounts Payable service. However the current Oracle implementation has a number of deficiencies which, if addressed, would to deliver efficiency and effectiveness benefits to the partnership.

### Replacement of Oracle

6.4. Currently Leicestershire County Council and Nottingham City Council share an Oracle e-business platform to support a range of functions. These include

procurement and payments to suppliers, billing and income from customers, financial budgeting and reporting, general ledger, HR processes, employee contract management, payroll and a range of statutory and business reporting capabilities.

6.5. It is well recognised across both Councils and within EMSS that the current Oracle implementation has a number of deficiencies which, if addressed, would be likely to deliver efficiency and effectiveness benefits to the Councils. A tender was concluded in 2017-18 to purchase the Oracle Cloud solution and it is expected that the system will be operational no later than April 2020.

6.6. The expected key benefits are:

- Be able to report from one single source of information, reliably, quickly and without manual intervention;
- Improve the user experience, reduce the need for manual, paper-based processes and enable managers to have greater visibility of their financial and workforce information on-line;
- Eliminate duplicate data processing;
- Be accessible and easy to use;
- Support a mobile and diverse workforce;
- The ability to meet the Councils' ambition to commercialise the shared services operation.
- Reduction in time to perform specific tasks and functions;
- Reduction in external spend;
- Reduction in the total cost of ownership (TCO) of the IT estate;
- An improvement in management information; and,
- A reduction in the risk of loss, error or fraud.

#### Central Government Review of Local Government Funding and Balancing the Councils Budget

6.7. The Government has implemented a rapid and extensive programme of policy change, accompanied by significantly reduced funding for the public sector. In response, service and financial planning processes have changed to

- take account of the priorities within the Council Plan 2015-2019;
- address demographic and service pressures through investment;
- reflect the significant reductions in external funding (especially general and specific Government grants) by reducing expenditure on those activities;
- support the Council's determination to be efficient, improve performance and modernise the organisation;
- recognise the very challenging financial landscape and future outlook and the impact on all sectors, including the Public Sector.
- Continue to focus on regeneration and growth through capital investment

6.8. In addition, the Council's approach to setting recent budgets has, where possible, 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
- 6.9. The City Council, like all other local authorities across the country, has seen a substantial and sustained reduction in Government funding because of austerity policies and continues to operate in a challenging financial environment; with the full consequences of Brexit yet unknown.
- 6.10. Whilst the Spring Statement announced on 13 March 2018 was the first fiscal announcement in recent years to show an improvement in the public sector finances there is still likely a long way to go before the end of fiscal austerity. We will have to wait for the Autumn Budget later in the year to see if local government will benefit from any additional future funding.
- 6.11. Consultations are continuing with local government with regard to policy areas such as Fair Funding Review and business rates retention. The likely implementation date will be 2020/21 but to date no firm proposals have been announced by MHCLG.
- 6.12. By 2018/19 Nottingham will be in the third year of a 4-year settlement agreed with the Ministry of Housing, Communities and Local Government (MHCLG) which has seen the continuation of significant reductions in Revenue Support Grant (RSG) as a proportion of the Council's total revenue funding. RSG will have fallen from £126.8m in 2013/14 to £35.0m in 2018/19, with a further reduction to £25.3m agreed for 2019/20.
- 6.13. Alongside the 4-year RSG agreement the Local Government Finance Settlement (LGFS) announced on 6 February 2018 also increased the council tax referendum criteria for authorities such as Nottingham to 3% and provided an additional one-off adult social care grant of £1.0m.
- 6.14. These items were both reflected in the Medium Term Financial Plan (MTFP) agreed by Full Council in March 2018 but do not fully address the rising demand and funding gaps for Adult Social Care and Children's services. These increasing care costs, alongside continuing funding cuts, will have a significant impact on the Council's ability to fund other local services.
- 6.15. In the period from 2010/11 to 2017/18 the Council made annual savings totalling £232.7m and will continue to have to make difficult decisions about the services it provides in 2018/19 with a further £28.4m new savings.
- 6.16. Saving proposals have been made in accordance with NCC budget strategy and many of these have been achieved by finding alternative and more cost-effective ways to deliver the same level of service, or by improving efficiency without any detriment to service delivery, as well as generating more income. However, the options for achieving further budget reductions in this way are becoming more limited.
- 6.17. The 2018/19 budget is predicated on sustainable solutions being found to address the budget issues behind recent revenue overspends for 2016/17 and 2017/18. The 2017/18 monitoring has been reported to Executive Board and

the outturn position is currently projecting an overspend of £4.2m, work is being undertaken to mitigate this overspend.

#### Housing Revenue Account – HRA

- 6.18. The HRA is balanced in medium term but there is a long-term gap on capital investment requirement. Following the tragic events at Grenfell, the Council has approved new fire safety works in high rise block. We are waiting confirmation from central government to provide funding for this work.
- 6.19. The Welfare Reform and Work Act 2016 requires that social rents are reduced by 1% per annum for four years from 2016, with 2018 being the third year the Council has had to reduce rents. There is uncertainty over future rent policies after the four year period
- 6.20. The roll out of Universal Credit, originally envisaged for 2018, has been delayed until at least October for Nottingham. Universal Credit will replace 6 existing benefits and merge them into one payment will be paid monthly in arrears. This is an unquantified financial impact on collection values and debt recovery.

#### Children In Care

- 6.21. The cost of funding children in care arrangements continues to be a key issue facing the Council as numbers of children in care both nationally and locally remain at historical highs.
- 6.22. In March 2018 we had 621 children in care, 30 of whom were unaccompanied asylum seekers, whose placements are funded by the Home Office. Work continues to scrutinise plans for children in order to ensure that safe exits from care are expedited and admissions into care only take place where there is no viable alternative.
- 6.23. We continue to work hard to recruit local foster carers despite the aggressive competition from private agencies. The additional capacity established to facilitate this work has been maintained and we saw a net increase in foster carers at the end of 2017/18. In March 2018 45% of children in foster care were placed with City Council carers. At the start of the year this figure was 39%
- 6.24. The position at year end was that 88% of our care leavers aged 19 – 21 were in suitable accommodation, which is slightly higher than the last reported performance in other similar authorities of 84%. 59% of care leavers aged 19 – 21 were in education, employment or training, which is again higher than the rate in other similar authorities of 52%.
- 6.25. Our residential Children's homes continue to perform strongly when visited unannounced for inspection by Ofsted. Our seven Ofsted registered homes have unannounced inspections at least annually. In March 2018 two were rated as outstanding, one was rated as good with outstanding leadership. The remaining four were rated as good.

#### Workplace Parking Levy (WPL)

- 6.26. The overall NET/WPL financial model is regularly updated to reflect the actual WPL income received each financial year together with the latest projections of future income. It is proposed that the financial model be extended to 2037/38, four years after the end of the Concession Agreement, to include continued



WPL income and re-profiling of the Prudential Borrowing repayments (subject to external auditor approval) in respect of the £100m capital contribution paid to Tramlink in 2015/16

#### Information Governance

- 6.27. The role and responsibilities of the Senior Information Risk Owner (SIRO) have been expanded to include; overall ownership of information risk management across the council, acting as champion for information management activities in order to mitigate against potential risks, and realising greater operational efficiencies and improved customer services. An Information Management Assurance Board is established, led by the SIRO to ensure information is managed in an holistic manner across the whole organisation with a focus on compliance, transparency, and efficiency.
- 6.28. Performance associated with requests under Freedom of Information and Environmental Information Regulations continue to remain above the recently increased statutory target. Previous challenges associated with managing and processing personal information requests under the Data Protection Act (DPA) have been addressed and performance is now routinely in line with statutory expectations.
- 6.29. The council is compliant with the Department of Communities and Local Government's Transparency Code 2015, and continues to lead in proactively making datasets available for re-use, via the Open Data Nottingham portal, thereby providing continued commitment to the council's value of being open and transparent. A 2017 internal audit identified a positive direction of travel in terms of how the Information Rights & Insight Team review and make non-personal information available.
- 6.30. In May 2018, the EU General Data Protection Regulation (GDPR) replaced the Data Protection Act 1998. The GDPR imposes new, and significantly more stringent, requirements for the handling of personal data. New procedures have been put in place to deal with the provisions of the GDPR associated with transparency and individuals' rights. Internal Audit were commissioned to carry out a gap analysis as part of the Council's ongoing preparations for the implementation of the GDPR, focusing on actions required to ensure compliance and to identify areas where additional work was required before May 2018. In addition, the GDPR places greater emphasis on the explicit design of organisational and technical measures to secure compliance with its principles (privacy by default and design). Significant associated budgetary, I.T., personnel, governance and communications implications were recognised. The internal audit report findings, and the ICO's 12 step GDPR checklist, were being used to develop the Council's GDPR action plan.

#### Information Technology

- 6.31. In February 2017, Actica Consulting reviewed the IT Service upon completion of the IT Service Improvement Programme. They noted a  
*“significant shift in user perception of the service”*  
and cited the service as

*“an example of what good looks like...resultant of the commitment to transformation of the IT Team ... Much of this improvement has come about as a result of the strict adherence to the SIP by the current Head of IT (Simon Salmon), with particular focus on improving customer service and the IT infrastructure, facilitated mainly by a structural reorganisation and cultural change programme within the ICT function”.*

#### Robin Hood Energy

6.32. The Council wholly own this private limited company 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. Governance arrangements are now established including weekly management meetings and bi-monthly Board meetings. The Chief Executive Officer also meets with shareholder representatives on a quarterly basis to review company performance and management accountability, alignment of business and operating principles, forward planning, and other activities conducted under the governance framework. The Board comprises 8 Directors, of which 4 are councillors, 3 are executive managers (Chief Executive Officer, Finance Director and Operations Director) and 1 Non-Executive Director from EBICO (White Label Partner).

#### Enviroenergy

6.33. The Council wholly own this private limited company, which both generates heat and power and sells heat and power to commercial and domestic customers in Nottingham. The company has launched additional commercial services, billing provision for a number of housing associations outside Nottingham and the development and sale of a heat monitor. The Board comprises 4 Directors (all Councillors) and meets on a bi-monthly basis.

6.34. 2017/18 has been a very challenging year for the company with an extended shutdown over the summer coming out of the planned maintenance programme and changes within the management arrangements since November 2017. Enviroenergy continues to work closely with the Council (as shareholder) in the development of a sustainable long term financial strategy to ensure investment obligations and scheme longevity are deliverable and affordable to the company.

#### Blueprint Limited Partnership

6.35. PfP Capital has replaced the Igloo Fund as the private sector partner in Blueprint. The Igloo Fund had been working towards a deadline of 31<sup>st</sup> December 2018 to realise its investment.

## 7. Conclusion

- 7.1. The Council has reviewed the effectiveness of its governance framework including the system of internal control as outlined above and considers it fit for purpose.
- 7.2. 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



**AUDIT COMMITTEE – 22 June 2018**

Title of paper:		AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME	
Director(s)/ Corporate Director(s):		Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:		Head of Audit and Risk, 0115-8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:			
Recommendation(s):			
1	To note the role and functions of the Audit Committee including the additional elements prescribed by the Public Sector Internal Audit Standards (PSIAS) and the benefits arising from its existence		
2	To endorse the outline work programme at Appendix 1 including the Assurance Plan and the terms of reference at Appendices 2 and 3.		

**1 REASONS FOR RECOMMENDATIONS**

- 1.1 Although an Audit Committee is not a legal requirement it is necessary for a sound management and has a role in satisfying section 151 of the Local Government Act 1972 which requires every local authority to 'make arrangements for the proper administration of its financial affairs', and the Accounts & Audit Regulations 2015 which require that the authority ensures that it has a sound system of internal control which:
- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
  - (b) ensures that the financial and operational management of the authority is effective; and
  - (c) includes effective arrangements for the management of risk.
- 1.2 An Audit Committee also reinforces the importance of probity, and performance and risk management. This report outlines the core functions of the Audit Committee, the benefits that will arise for the City Council and an outline annual work programme.
- 1.3 Role of the Audit Committee - The overarching purpose of an Audit Committee is to provide independent assurance on the adequacy and integrity of the governance and control environment, the Risk Management Framework, and the annual financial reporting process. As part of this role the proposed work programme this year includes agreeing the council's Assurance Framework.
- 1.4 Benefits of the Audit Committee - The benefits to be gained from operating an effective Audit Committee are that it:
- Raises greater awareness of the need for effective 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, for example by providing a view on the annual governance statement;

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

- 1.5 Constitutional Role - The Audit Committee aims to improve corporate focus on governance by:
- Providing assurance on the adequacy of the Risk Management Framework and the associated control environment;
  - Scrutinising the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment;
  - Overseeing the financial reporting process
  - Approving the Council's Statement of Accounts;
  - Commenting on the scope and nature of external audit;
  - Overseeing proposed and actual changes to the Council's policies and procedures pertaining to governance
- 1.6 Functions of the Committee - The Audit Committee fulfils the following functions:
- functions listed in Appendix 2 under delegations from Executive Board as noted in the Constitution – Responsibilities for Functions and Terms of Reference
  - functions listed in Appendix 3 under PSIAS as a consequence of the Accounts and Audit Regulations 2015.

## **2 BACKGROUND**

- 2.1 An Audit Committee is central to the provision of effective corporate governance, which partly depends on a systematic strategy, clear framework and processes for managing risk. Good governance also helps to deliver improved services and maintains and increases public confidence in the objectivity and fairness of financial and other reporting. It is important that local authorities have independent assurance about the mechanisms underpinning governance.
- 2.2 It is recognised that high performing councils develop effective financial and non-financial control mechanisms. The development of expertise made available by the establishment of an Audit Committee, meeting on a regular cycle, and with Terms of Reference focussed on the key audit, control and risk management areas critical to the Council's performance is a key part of these mechanisms.
- 2.3 The Committee's outline work programme is attached as Appendix 1. The work programme supports the Council's aim to improve its efficiency and effectiveness. It has been developed to address
- the Terms of Reference for the Committee approved by the City Council which are included within Appendix 2 and
  - the requirements of PSIAS which are shown in Appendix 3.
- 2.4 In accordance with CIPFA guidance, the Committee is politically balanced and will not have Executive membership. Membership will continue to be reviewed in accordance with guidance from the Ministry of Housing Communities & Local Government (MHCLG).

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

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REPORT TITLE	LEAD ▽	Provisional DATE					
		May-18	Jul-18	Sep-18	Nov-18	Feb-19	Jun-19
Annual Governance Statement Interim Report	FD/IA						
Annual Governance Statement	FD/IA						
Annual Governance Statement Mid-Year Update	FD/IA						
Internal Audit Plan	FD/IA						
Internal Audit Annual Report & Audit Charter	FD/IA						
Internal Audit Performance	FD/IA						
Internal Audit Reports Selected for Examination	FD/IA						
Audit Committee Annual Report	Chair						
Audit Committee Role & Annual Work Programme	FD/IA						
Audit Committee Training Activity	FD/IA						
Counter Fraud Strategy	FD/IA						
EMSS Update	FD/IA						
Performance Management Framework	PP						
External Audit – Annual Audit Letter	EA						
External Audit – Certification of Claims & Returns Annual Report	EA						
External Audit – Report to Those Charged with Governance	EA						
External Audit – Regular update/statement progress	EA						
External Audit – External Audit Plan	EA						
LGO Annual Report	CS						
Partnership Governance Framework	PP						
Risk Management Annual Report	FD/FR						
Risk Management Quarterly Report	FD/FR						
Risk Management Strategy/Framework	FD/FR						
Risk Management Training	FD/FR						
Statements of Accounts	FD/CA						
Accounting Policies	FD/CA						
Treasury Management Annual Report	FD/FT						
Treasury Management Strategy & Key Issues Update	FD/FT						
Information Governance Annual Report	IG						
Health & Safety Annual Report	HS						

**Key: Purpose**

As required

For approval

Reviewing performance

**Key: People**

Chair

of Audit Committee

EA

External Auditor

FD

Strategic Dir. of Finance

CS

Customer Services

PP

Policy &amp; Performance

FT

Finance Technical

FR

Risk &amp; Insurance

IA

Head of Audit &amp; Risk

CA

Head of Strategic Finance

IG

ICT and Info Governance

HS

Head of Resilience

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## Audit Committee Terms of Reference

TITLE	AUDIT COMMITTEE
<b>POWERS / REMIT</b>	
<p><b>(a) Main Purposes:</b></p> <ol style="list-style-type: none"> <li>1. Provide assurance of the adequacy of the risk management framework and the associated control environment;</li> <li>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;</li> <li>3. Oversee the financial reporting process;</li> <li>4. Approve the Council's Statement of Accounts;</li> <li>5. Comment on the scope and nature of external audit;</li> <li>6. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.</li> </ol> <p><b>(B) Main Functions:</b></p> <ol style="list-style-type: none"> <li>1. Reviewing the mechanisms for the assessment and management of risk;</li> <li>2. Approving the council's statement of accounts;</li> <li>3. Receiving the council's reports on the Statement on the Annual Governance Statement and recommending their adoption;</li> <li>4. Approving Internal Audit's strategy, planning and monitoring performance;</li> <li>5. Receiving the Annual Report and other reports on the work of Internal Audit;</li> <li>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;</li> <li>7. Considering arrangements for and the merits of operating quality assurance and performance management processes;</li> <li>8. Considering the exercise of officers' statutory responsibilities and of functions delegated to officers;</li> <li>9. To recommend external audit arrangements for the council;</li> <li>10. To receive and consider the results of reports from external inspectors, ombudsman and similar bodies and from statutory officers;</li> <li>11. Overseeing the Partnership Governance Framework, including annual health checks and the Register of Significant Partnerships.</li> </ol>	
<b>ACCOUNTABLE TO:</b> Council	
<b>MEETINGS:</b> Normally six per annum plus specials where required	
<b>MEMBERSHIP:</b> 9 non-executive members (politically balanced) plus 1 independent member.	
<b>ESTABLISHED SUB COMMITTEES:</b> None.	

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<b>TABLE 2: DUTIES OF THE BOARD (AUDIT COMMITTEE) MANDATED BY PSIAS</b>		
<b>PSIAS ref</b>	<b>Duty of the Board</b>	<b>Compliance or Explanation</b>
1000	Approve the Internal Audit charter	Comply
1110	Approve the risk based Internal Audit plan, the Internal Audit budget and resource plan including any significant* changes	Comply (budget and resources to be approved by S151 officer)
1110	Approve decisions relating to the appointment and removal of the Chief Audit Executive	This role is fulfilled by S151 officer but NCC recruitment process allows the Chair to be a stakeholder representative on recruitment panel. The Chair would also be consulted on any decision to remove the CAE.
1110	Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity	Comply
1110	Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations	Comply
1110	The chair to provide feedback for the Chief Audit Executive's performance appraisal	Comply
1130	Approve significant* additional consulting services agreed during the year and not already included in the audit plan, before the engagement is accepted	Comply
1320	Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive	Comply
2020 & 2030	Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters	Comply
2060	Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.	Comply

\*Significant is taken to mean 5% of the audit plan in days.

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**AUDIT COMMITTEE – 22 June 2018**

Title of paper:		AUDIT COMMITTEE ANNUAL REPORT 2017/2018	
Director(s)/ Corporate Director(s):		Councillor Sarah Piper Chair of Audit Committee (2017/18)	Wards affected: All
Report author(s) and contact details:		Councillor Sarah Piper, Chair of Audit Committee (2017/18) Email: <a href="mailto:sarah.piper@nottinghamcity.gov.uk">sarah.piper@nottinghamcity.gov.uk</a>	
Other colleagues who have provided input:			
Recommendation(s):			
1	To note the work undertaken and approve the report in Appendix 1.		

**1 REASONS FOR RECOMMENDATIONS**

- 1.1 This report outlines the work undertaken by the Audit Committee in 2017/2018 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 a key component of corporate governance. CIPFA guidance for audit committees states that :  
‘The purpose of an audit committee is to provide, to those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.’  
Taking actions towards this purpose helps fulfil the statutory obligations of the Council under the Accounts and Audit Regulations 2015 and section 151 of the Local Government Act 1972
- 2.2 Whilst the Audit Committee exists partly to oversee proposed and actual changes to the council’s policies and procedures pertaining to governance, the executive and senior management have responsibility for implementing these arrangements. In order to support this the Committee has approved a strategy, clear frameworks and processes for managing risk.
- 2.3 Good governance maintains and increases public confidence in the objectivity and fairness of financial and other reporting, and service planning, delivery, and improvement. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.
- 2.4 An effective audit committee both supports and challenges, and in doing so 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.
- 2.5 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 in 2017/2018. It aims to develop the Council’s commitment to improving corporate governance.

2.6 The report at Appendix 1 summarises the work undertaken by the Committee during 2017/2018, 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. The report categorises the work under the broad themes below :

- Assurance Statements and Governance;
- Risk Management;
- Performance Management and Value for Money;
- External Audit, Inspection and Assurance;
- Internal Audit and Counter Fraud; and
- Financial Reporting.

It also comments on the Committee's independence; and training and development.

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

2.6 CIPFA Guidance referred to in this paper and its Appendix is the guidance which was current in 2017-18 as shown below. It is acknowledged that this has been updated in late April 2018 and the Audit Committee will consider this guidance in due course.

### **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 Accounts and Audit Regulations 2015

4.2 CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013

4.3 CIPFA Delivering Good Governance In Local Government – Guidance Notes for English Authorities 2016 Edition

## **Appendix 1**

### **Audit Committee Annual Report 2017/2018**

#### **Foreword by the Chair**

In this annual report, I would 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 during the year. I also appreciate the support provided to the Committee throughout the year by Head of Audit and Risk with advice and training. In addition, I would like to thank Council colleagues and external providers of assurance, in particular colleagues from KPMG as they come to the end of their term as our external auditors. These colleagues have attended our meetings and answered our questions, and can confirm that the Audit Committee provides challenge in terms of both the assurance work reported on and the responses of management, 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 2017/2018 and describes how the Committee has contributed to the effectiveness of the Council by the work it has done including:

- Assurance Statements and Governance
  - Updating the Local Code of Corporate Governance
  - Monitoring and approving the Annual Governance Statement and associated activity
  - Monitoring and approving Partnership governance arrangements
- Risk Management
  - Reviewing the mechanisms for the assessment and management of risk and thereby developing the Council's ability to respond to known and emerging risks and considering key risks
  - Overseeing the Council's Treasury Management arrangements
- Performance Management, Quality Management and Value for Money
  - Reviewing assurances provided
- External Audit, Inspection and Assurance
  - Managing a good working relationship with the External Auditor, ensuring appropriate action is taken on its recommendations
  - Receiving crosscutting external inspections and assurance reports, ensuring appropriate action is taken on its recommendations
  - Recommending External Audit arrangements for the Council
- Internal Audit and Counter Fraud
  - Approving arrangements and monitoring performance of Internal Audit and Counter Fraud
  - Ensuring internal audit independence and that findings are actioned by managers and consequently helping to improve the Council's effectiveness and governance arrangements;
- Financial Reporting
  - Monitoring of, and contribution to, the development of the Council's Statement of Accounts

## **The Purpose of Audit Committees**

Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the

- risk management framework,
- internal control environment and
- integrity of the financial reporting and annual governance processes.

By overseeing internal and external audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.

## **Terms of Reference**

The Council has delegated some of its non-executive functions to the Audit Committee as defined in the Committee's terms of reference. Further detailed functions within these terms have been identified to support compliance with the Public Sector Internal Audit Standards.

Good governance is ultimately the responsibility of those charged with governance, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the chief financial officer and the monitoring officer. The audit committee plays a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting.

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 as 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 Internal Audit and contribute to Peer Review
- 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**

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 to ensure that Council objectives are met. As part of this role it approves Audit Plans, the Statement of Accounts, and Annual Governance Statement and monitors the robustness of performance management systems. The benefits gained from operating an effective committee are that it:

- contributes to the development of an effective control environment including arrangements for management of risk;
- increases stakeholder confidence in the objectivity and fairness of financial and other reporting by promoting transparency and accountability;
- reinforces the importance and independence of internal and external audit and any other similar review process (e.g. providing a view on the AGS) and the implementation of audit recommendations;
- advises on the adequacy of the assurance framework and considers whether assurance is deployed efficiently and effectively to give assurance that business objectives are met;
- helps the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption

## **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 2017/2018 were:

Councillor Sarah Piper (Chair)  
 Councillor Malcolm Wood (Vice Chair)  
 Councillor Leslie Ayoola  
 Councillor Rosemary Healy  
 Councillor John Hartshorne  
 Councillor Anne Peach  
 Councillor Andrew Rule  
 Councillor Adele Williams  
 Councillor Steve Young

## **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.

## **Assurance Statements and Governance**

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.

### **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 Accounts and Audit Regulations 2015 require the publication of an AGS following an (at least) annual review of the effectiveness of the Council's internal control. 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 Statement of Accounts (SOA). The Committee has delegated authority for the formal approval of the AGS,

The 2016 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 Audit Committee.

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 2016/17 AGS was signed by the Leader of the Council and the Chief Executive, was approved by the Committee at its September meeting and was published alongside the SOA. The Committee approved the AGS 2016/17, which identified the Housing Revenue Account, Replacement of Oracle, and Response to the Grenfell Tower Fire as new items worthy of note, and removed Nottingham Express Transit and Nottingham Revenues and Benefits and Blueprint Partnership Limited / Blueprint (General Partner) Limited. During 2017/18 the Committee has received final updates on Information Technology and Response to the Grenfell Tower Fire as issues worthy of note. The Committee periodically received reports on the progress made in addressing the issues reported in the 2016/17 Statement, and the process and timetable for compiling the 2017/18 statement. In summary the Committee was assured that progress was being made across the areas reported.



## **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.

The Partnership Governance Framework includes an annual 'health check' of each partnership that is significant to the City Council in terms of strategic, reputational or financial importance. This health check is designed to identify any risks to the Council from its involvement in any of the partnerships. The results of these health checks are reported to Audit Committee along with remedial actions that are needed to protect the Council from an unacceptable level of risk. Partnerships that are deemed significant to the Council in terms of their strategic, reputational or financial importance are listed in the Register of Significant Partnerships. Any changes to the register are reported and explained to Audit Committee annually.

### **Summary of work**

The Committee noted the findings of the Partnership Governance Annual Health Checks which followed work to verify governance documentation of 4 of the 11 partnerships. No further partnerships were added to the Register of Significant Partnerships in 2017-18, Midlands Engine having been included from 2017 with Health Checks from 2018.

The Committee was provided with an update on the Health Checks and initial plans for verification work in 2018.

Any new and emerging partnerships will be considered for inclusion on the register of significant partnerships and the validity of partnerships currently on the register will be evaluated on an annual basis.

The Committee also received a presentation on the Sustainability and Transformation Partnership (STP) between the Council and the local Clinical Commissioning Group.

## **Information Technology (IT)**

### **Rationale**

The City Council is reliant on the various forms of IT to perform its everyday business, whether this is 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 available to provide the appropriate service and to maintain controls that ensure that citizen and colleague data is properly protected and accurate at all times.

### **Summary of work**

Following previous focus by the Committee on IT, the IT service was externally re-assessed in February 2017 and the results of this assessment were presented to Committee in July 2017 as part of discussion of the Annual Governance Statement. The summary of the re-assessment was that NCC IT was now described as what "good" looks like with regard to ICT service provision. Internal Audit continue to follow a robust programme of audits across

corporate ICT designed to identify ICT assurances that are essential to a well-governed and well-functioning City Council.

## **Risk Management**

### **Rationale**

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.

### **Summary of Work**

The Committee has responsibility for approving the RMF, consisting of Risk Management Policy, Process Guide, Risk Reporting guide and Strategy, and in addition to this, roles and responsibilities are set out. The RMF provides a guide to the benefits of risk management and how to incorporate it into the various activities of the Council. It provides guidance on when to escalate and when to de-escalate reporting of risks. During the year the Committee approved the RMF and its Strategy for continuous improvement of risk management and has started to select and review individual risks from the Council's Risk Register. It also received quarterly reports of the Council's Risk Register.

## **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 CIPFA Treasury Management Code of Practice (the TM Code) and Prudential Code. The TM Code requires authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity.

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.

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 2016/17 Treasury Management Annual Report and noted Issues including:-

- Treasury Management actions taken in 2016/17 and 2017/18
  - Repayment of Icelandic banks debt
  - Increase in total borrowing

- Use of money market loans
- Internal investment
- Use of external advisers
- Performance on interest payable and receivable
- Noting the 2018/19 Treasury Management Strategy, particularly the:-
  - strategy for debt repayment (Minimum Revenue Provision) in 2018/19;
  - investment and borrowing strategies for 2018/19;
  - prudential indicators and limits for 2015/16 to 2019/20;
  - current Treasury Management Policy Statement

## **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 the control environment.

The Council Plan stresses the importance of having effective performance management in place which effectively measures and reports 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 noted the progress against the Council Plan to March 2019, and during 2017/18 that the Corporate Performance Management Framework (PMF) has been in the process of revision ahead of the next Council Plan in 2019.

## **External Audit, Inspection and Assurance**

This area of work covers external providers of assurance including external audit, which is the key external provider of assurance for financial stewardship and accountability.

### **External Audit**

#### **Rationale**

The Committee 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 the control environment, and to oversee the financial reporting process. It also has the responsibility 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 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.

#### **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 and outcomes were similar to other local authorities and that their recommendations were addressed appropriately. The Committee has also considered arrangements for procuring external audit.

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*“KPMG feels that Nottingham City Council has taken a balanced approach to their accounting estimates”*

*“We have reviewed the Authority’s 2016/17 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.”*

*“...your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (‘Delivering Good Governance in Local Government’) published in April 2016.”*

*“We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

*“We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, whilst noting the current pressures and need for action within 2017/18.” – KPMG LLP*

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## **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 noted in particular that of the 98 complaints reviewed by the Ombudsman, 8 had been upheld, which was a decrease on the previous year and at the lower end of the percentage spectrum compared to other core cities. Overall, the Council’s figures reflect the national trend for the main subjects of complaint, which are Adult Care, Benefits and Tax and School Admission / Appeal services. The improvements coincide with a new complaints process in use by the council, we will review whether this is maintained in 2017-18 figures.

*Ombudsman reviewed 98 complaints, 8 were upheld*

*Comparable subjects to other core cities, Nottingham has the second lowest percentage upheld*

## **Internal Audit and Counter Fraud**

### **Rationale**

One of the Committee's key roles is to review and monitor the work of Internal Audit (IA). The Public Sector Internal Audit Standards (PSIAS) set out the requirements for Internal Audit, and the Audit Charter sets out the Council's terms of reference for the service. External and internal assessments of Internal Audit under the PSIAS and its Quality Assurance and Improvement Plan (QAIP) help the Committee assess the 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 PSIAS require that 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.

### **Summary of work**

The service affects the achievement of 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. The Audit Committee agreed

- the Internal Audit Charter.
- the Internal Audit Annual Workplan
- performance updates. IA continue to coordinate Counterfraud activities in line with the Counterfraud Strategy as reported in IA quarterly and annual reports. Counterfraud activities have made significant contributions in 2017-18 by exceeding savings and income targets

and received

- the Internal Audit Annual Report containing reasonable assurance from the HoIA that the internal control system was operating effectively within the Council and its associated partners. 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
- external assessment of Internal Audit as part of the Internal Audit Annual Report
- selected reports for further scrutiny

## **Financial Reporting**

### **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 reviewed and agreed the accounting policies on which the annual accounts were prepared and noted the response of the Chair to the external auditors' questions to

those charged with governance. The 2016/17 SOA and Annual Governance Report were received by the Committee. The Committee noted the issues identified in the associated Annual Audit Letter

## **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 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. 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.

### **Looking Forward**

The Audit Committee will amongst other activities

- select further individual risks from the Corporate Risk Register for scrutiny.
- review and approve the revised version of the Performance Management Framework.
- review other management assurance frameworks
- receive an update on the technical consultation on Business Rates

### **Independence**

The key criterion in assessing the independence of the Committee is that its members are non-executives and their conduct on the Committee is independent of political allegiances. My assessment is that this has been the case this year and I thank members of the Committee for their contribution.

Whilst there is provision for the Committee to have 1 independent member this position has not been filled to date.

### **Training & Development**

Members of the committee attended a training session in October 2017 run by Capita Asset Services (which advises the Council on Treasury Management). The programme for this event was:

- An overview of treasury management, risk and Members role
- The economy and the risks this raises from a treasury management perspective

- Interest rate expectations
- The Council's Balance Sheet in simple terms and what these means for treasury management
- Internal borrowing – the risks and benefits
- Debt management
- Investment issues

Training sessions on the Statement of Accounts took place in September 2017. Further refresher training will take place prior to members' consideration of the 2017/18 Statement of Accounts.

### **Conclusion**

Having considered the available guidance, the terms of reference and duties of the Audit Committee, and the work undertaken over the period since my last annual report, it is my assessment is that the Committee has carried out its roles effectively during 2017/18.

## Appendix A

### The Committee's Terms of Reference 2017/2018

TABLE 1: TERMS OF REFERENCE MANDATED BY CONSTITUTION	
TITLE	AUDIT COMMITTEE
POWERS / REMIT	
<p><b>(a) <u>Main Purposes:</u></b></p> <ol style="list-style-type: none"> <li>1. Provide assurance of the adequacy of the risk management framework and the associated control environment;</li> <li>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;</li> <li>3. Oversee the financial reporting process;</li> <li>4. Approve the council's statement of accounts;</li> <li>5. Comment on the scope and nature of external audit;</li> <li>6. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.</li> </ol> <p><b>(b) <u>Main Functions:</u></b></p> <ol style="list-style-type: none"> <li>1. Reviewing the mechanisms for the assessment and management of risk;</li> <li>2. Approving the council's statement of accounts;</li> <li>3. Receiving the council's reports on the annual governance statement and recommending their adoption;</li> <li>4. Approving internal audit's strategy, planning and monitoring performance;</li> <li>5. Receiving the annual report and other reports on the work of internal audit;</li> <li>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;</li> <li>7. Considering arrangements for and the merits of operating quality assurance and performance management processes;</li> <li>8. Considering the exercise of officers' statutory responsibilities and of functions delegated to officers;</li> <li>9. To recommend external audit arrangements for the council;</li> <li>10. To receive and consider the results of reports from external inspectors, ombudsman and similar bodies and from statutory officers;</li> <li>11. Overseeing the partnership governance framework, including annual health checks and the register of significant partnerships.</li> </ol>	
<b>ACCOUNTABLE TO:</b> Council	
<b>MEETINGS:</b> Normally six per annum plus specials where required	
<b>MEMBERSHIP:</b> 9 non-executive members (politically balanced) plus 1 independent member	
<b>ESTABLISHED SUB COMMITTEES:</b> None.	



<b>TABLE 2: DUTIES OF THE BOARD (AUDIT COMMITTEE) MANDATED BY PSIAS</b>		
<b>PSIAS ref</b>	<b>Duty of the Board</b>	<b>Compliance or Explanation</b>
1000	Approve the Internal Audit charter	Comply
1110	Approve the risk based Internal Audit plan, the Internal Audit budget and resource plan including any significant* changes	Comply (budget and resources to be approved by S151 officer)
1110	Approve decisions relating to the appointment and removal of the Chief Audit Executive	This role is fulfilled by S151 officer but NCC recruitment process allows the Chair to be a stakeholder representative on recruitment panel. The Chair would also be consulted on any decision to remove the CAE.
1110	Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity	Comply
1110	Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations	Comply
1110	The chair to provide feedback for the Chief Audit Executive's performance appraisal	Comply
1130	Approve significant* additional consulting services agreed during the year and not already included in the audit plan, before the engagement is accepted	Comply
1320	Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive	Comply
2020 & 2030	Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters	Comply
2060	Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.	Comply

\*Significant is taken to mean 5% of the audit plan in days.

## 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 Updates, Framework, Corporate Risk register and Corporate Risk Scrutiny	1	1
Counter Fraud Strategy	6	8
External Audit Plan, Progress, Technical Updates, and Reports	5	6,9
Performance Management Framework Update	2	7
Treasury Management Strategy, Annual Report, and Half Yearly Update	2	2,8
Internal Audits selected for examination	1	4
Reviews/ Updates :- Best Practice in Company Governance	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
External Audit Questions To Those Charged With Governance	1, 3, 4	6

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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