Public Document Pack

Nottingham City Council

NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 20 July 2018

Time: 11.30 am

Place: LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG

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

[signature]

Corporate Director for Strategy and Resources

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

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

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

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

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LB 32 - Loxley House, Station Street, Nottingham, NG2 3NG on 22 June 2018 from 10.32 am - 12.03 pm

Membership

Present   Absent
Councillor Michael Edwards (Chair)   Councillor John Hartshorne
Councillor Leslie Ayoola
Councillor Cheryl Barnard
Councillor Rosemary Healy
Councillor Anne Peach
Councillor Andrew Rule
Councillor Adele Williams
Councillor Steve Young

Colleagues, partners and others in attendance:

Theresa Channell   -   Head of Strategic Finance
Tony Crawley   -   KPMG External Auditor
Glyn Daykin   -   Senior Accountant Treasury Management
Sue Risdall   -   Team Leader, Technical Finance
Shail Shah   -   Head of Audit and Risk
John Slater   -   Group Auditor
Thomas Tandy   -   KPMG External Auditor
Zena West   -   Governance Officer

1   APPOINTMENT OF VICE CHAIR

Councillor Steve Young was appointed as the Vice Chair for the 2018/19 municipal year.

2   APOLOGIES FOR ABSENCE

Councillor John Hartshorne – Council Business

3   DECLARATIONS OF INTEREST

None.

4   MINUTES

The minutes of the previous meeting were confirmed as a correct record, and signed by the Chair.

5   NOTTINGHAM CITY COUNCIL AUDIT PLAN 2017/18

Tony Crawley and Tom Tandy, from external auditors KPMG, presented the Audit Plan 2017/18, as circulated with the agenda. An updated plan was brought to the April 2018 meeting; this has now been altered slightly due to the Council's EU PI

status. Materiality level has been reduced to 1% of turnover. Pages 15 and 16 of the agenda pack set out the procedures for significant risk – a long audit report will be required.

Following questions from the Committee, some further information was provided:

(a)   the opinion section will increase from three pages to around six or seven pages. There will not be a significant increase in the size of the overall document;

(b)   the pension liabilities issue applies to all Local Authorities, not just principal ones;

(c)   the pre-audit 2017/18 financial statements of Robin Hood Energy show that its financial performance has improved and has met its target of breaking even.

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

6   TREASURY MANAGEMENT 2017/18 ANNUAL REPORT

Glyn Daykin, Senior Accountant, presented the Treasury Management 2017/18 Annual Report to the Committee, highlighting the following points:

(a)   section 4.2 of the report adds some context to the current economic climate, which is experiencing fragile and inconsistent growth. Base rates increased in November, with an intention to increase them again, earlier and faster than previously thought. Base rates across Europe and the USA are following a similar pattern;

(b)   the balance of external debt increased by £76,700,000, due to additional capital programme works;

(c)   the budget estimate shows a projected underspend of £220,000. There were no breaches to prudential indicators. The budget estimate was revised mid-year due to further approvals for capital expenditure.

Following questions and comments from the Committee, some additional information was provided by Glyn Daykin, Shail Shah (Head of Audit and Risk) and by Theresa Channell (Head of Strategic Finance):

(d)   whilst the economy is currently experiencing some growth, there is a great deal of uncertainty ahead, for example the prospect of a no-deal exit from the EU. Variable debts have been swapped to fixed debts in order to prepare for more uncertain times and to take advantage of low interest rates;

(e)   the Treasury Management Panel includes a risk management action plan, which is reported quarterly. It serves as an overall assessment of effectiveness. The Panel consists of colleagues within finance and the Chief Finance Officer;

(f)   a risk table is not contained within the report, but one can be brought to a future meeting of Audit Committee;

(g)   the new advisors to the Panel can be invited to a future meeting of Audit Committee, to meet with Audit Committee members and discuss any further requirements.

RESOLVED to note performance information in relation to Treasury Management for 2017/18.

7   INTERNAL AUDIT ANNUAL REPORT 2017/18

Shail Shah, Head of Audit and Risk, presented the Internal Audit Annual Report, which is a culmination of the quarterly Internal Audit reports. He confirmed that internal audit remains independent, had adequate resources, that audit scope was not limited and that standards were complied with. The annual assurance is contained on page 59 of the agenda pack, and this offered reasonable assurance. The report contains a summary of the last years' work, and the planned work for next year.

Following some question and comments from the Committee, Shail Shah provided some additional information:

(a)   planned days take account of the potential for staff training, sickness absence and vacancies, and is a best estimate. The actual days may vary, for example last year they were lower as a vacant post was recruited to much sooner than anticipated. The quarterly reports contain further detail, and would highlight any red flags as and when they occur. There was only one "no assurance" from the report last year;

(b)   a recent review of procurement arrangements was presented to the Corporate Leadership Team and all Directors, highlighting the importance of correct procurement, proper monitoring, and securing value for money. There will be a corresponding push across the council to seek out savings and spending controls in relation to proper procurement;

(c)   the Corporate Risk Specialist post has been vacant for over two years, but is now being shortlisted. Risk is not consistently embedded across the organisation, but this should improve once the post is filled. Further Risk Management reports will come to Audit Committee on a regular basis. Operational risk management is undertaken consistently to a high standard, with an experienced Risk Specialist.

RESOLVED to:

(1)   note the audit work completed during the year, as detailed within the report;

(2)   note the Head of Audit and Risk's Annual Opinion on page 59 of the agenda pack;

(3)   note the proposed Audit Plan for 2018/19, as detailed within the report;

(4)   note the desire to see clearer statements and direction on risk in the Risk Management Update report to a future meeting of Audit Committee.

8   INTERIM ANNUAL GOVERNANCE STATEMENT 2017/18

Shail Shah, Head of Audit and Risk, presented the Interim Annual Governance Statement 2017/18 to the Committee. It is a requirement to publish the Annual Governance Statement with the Accounts, an interim version is brought to Committee so that Councillors can add their comments. Items worthy of note are contained on page 106 of the agenda pack, section six. There is nothing significant to report. The final report will come to the July meeting of Audit Committee, followed later in the year by a mid-year update.

The Committee had a number of questions and comments, and some further information was provided by Shail Shah and Theresa Channell (Head of Strategic Finance):

(a)   the report is almost finalised, and there are unlikely to be further changes to the interim version. The final version will be signed off by the Chief Executive and the Leader of the Council;

(b)   some annual external audits were not completed on time last year. A great deal of work has been done to ensure all companies meet the deadline this year, and it is not anticipated that this issue will be repeated;

(c)   when Oracle was originally introduced, it was a heavily customised version of Leicestershire's system under the shared service. As it is heavily customised, it cannot be upgraded and is not supported, so a new system is required. No matter how efficient the new system is, it will still require a change in the way colleagues work, and the implementation will have to be done properly to ensure a smooth transition. After nine months examining the specification and a thorough tender exercise, Oracle Fusion was by far the best available system. One unique selling point is that Oracle Fusion is very difficult to customise, which will future proof the system and ensure ongoing support and upgrades are available. The approach to payments is fairly standard and similar to Leicestershire County Council's, so such customisation should not be required. Users of the system will have to "adopt, not adapt";

(d)   different practices had previously existed across the Council in terms of paying invoices, which could potentially lead to duplicate payments. The new package will change the process as well as the system, and will streamline this process across all departments within the Council. There will be more granularity, and a move towards no payments being made without a purchase order having been raised.

RESOLVED to:

(1)   note the interim Annual Governance Statement 2017/18 as set out in Appendix 1 to the report;

(2)   note the Committee's desire for a statement on objective aims and SMART (specific, measurable, achievable, relevant, and time-bound) benefits for the introduction of Oracle Cloud.

9   AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME

Shail Shah, Head of Audit and Risk, presented the Audit Committee Terms of Reference and Annual Work Programme, which ensures that the remit of Audit Committee is covered and is spread throughout the municipal year. The programme serves as a general guide to keep meetings balanced.

RESOLVED to:

(1)   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)   endorse the outline work programme at Appendix 1 of the report, including the Assurance Plan and the terms of reference at Appendices 2 and 3 of the report.

10   AUDIT COMMITTEE ANNUAL REPORT 2017/2018

Councillor Michael Edwards, Chair of Audit Committee, presented the Audit Committee Annual Report 2017/18, and expressed his gratitude to the outgoing Chair, Councillor Sarah Piper, for her hard work.

RESOLVED to note the work undertaken and approve the report contained within Appendix 1.

11   FUTURE MEETING DATES

The Committee requested that future meetings be rescheduled from 10:30am to 10:45am.

RESOLVED to meet on the following Fridays at 10:45am:
- **20 July 2018**
- **28 September 2018**
- **30 November 2018**
- **22 February 2018**

12   STATEMENT OF ACCOUNTS PROGRESS

Susan Risdall, Finance Team Leader, presented a report on the progress of the Statement of Accounts. The Draft Statement of Accounts has been published on the Nottingham City Council website: https://www.nottinghaminsight.org.uk/d/201057. The draft statement has not been brought to Audit Committee before, however in light of the significant changes to completion dates, it was felt to be prudent. The draft statement was published on the Nottingham City Council website by the required

deadline, and assurances were offered that the final deadline of 31 July will be met. The final version will be presented to the next meeting of Audit Committee on 20 July.

The Committee had some questions and requested some additional information, which was provided by Susan Risdall and Theresa Channel (Head of Strategic Finance):

(a)   the Latin phrase within the statement will be replaced for the final copy of the Statement of Accounts to be presented to the Committee in July;

(b)   there has been some general slippage between budgeted spend on transport and actual spend. The statement is a snapshot of hundreds of schemes within a complex capital programme, it does not include details on specific schemes;

(c)   the statement is a complex document with a large amount of detail. A separate session can be arranged for those Councillors who wish to be briefed in greater detail before the next meeting of Audit Committee.

RESOLVED to thank Susan Risdall for the update on the Draft Statement of Accounts, and to note its contents.

13   EXCLUSION OF THE PUBLIC

RESOLVED to exclude 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

RESOLVED to approve the recommendations in the exempt report.

AUDIT COMMITTEE – 20 July 2018

Title of paper:	**ANNUAL GOVERNANCE STATEMENT 2017/18**	
Director(s)/ Corporate Director(s):	Laura Pattman Director of Strategic Finance	**Wards affected:**
Report author(s) and contact details:	Shail Shah Head of Internal Audit Tel: 0115-8764245 Email: shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To approve the Annual Governance Statement 2017/18 set out at Appendix 1**.**	

1   REASONS FOR RECOMMENDATIONS

1.1   This report presents the Annual Governance Statement (AGS) which 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 Council has 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. The CIPFA/SOLACE 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. Previous versions of guidance were adopted in 2008 and 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 final statement has been 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 final 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, Chief Executive, and the CFO, and will contain the following information:
- an acknowledgement of responsibility for ensuring that there is a sound system of governance;
- an indication of the level of assurance that the systems and processes that comprise the Authority's governance arrangements can provide;
- a brief description of the key element of the governance framework, including those of significant groups or partners;
- a brief description of the processes undertaken to maintain and review the governance arrangements, including some comment on the work undertaken by the Council, Executive Board, Committees with governance remits and Internal Audit;
- an outline of the actions taken or proposed to deal with significant governance issues.

2.9 This statement maps the policies, procedures and initiatives the Council has put in place to address the governance issues embodied in its Local Code. A new item of note about Blueprint has been included to update the Committee on the resolution of a partnering risk. One item is no longer considered of note regarding Information Technology.

2.10 An interim version of this statement was discussed at this committee on June 22nd 2018. Only minor updates have been made since that date.

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 Edition

4.2   CIPFA / SOLACE - Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016 Edition

4.3   Accounts and Audit Regulations 2015

4.4   Executive Board 20 May 2008 – Local Code of Corporate Governance

4.5   Audit Committee 24 February 2017 – Annual Governance Statement – Progress Made To Date On Issues Reported 2015/16 And Process For Producing 2016/17 Statement

4.6   Audit Committee 27 April 2018 – Annual Governance Statement Progress Made To Date On Issues Reported 2016/17 And Process For Producing 2017/18 Statement

4.7   Audit Committee 22 June 2018 – Interim Annual Governance Statement 2017/18

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Annual Governance Statement 2017/18

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.

1

Achieving the Intended Outcomes While Acting in the Public Interest at all Times
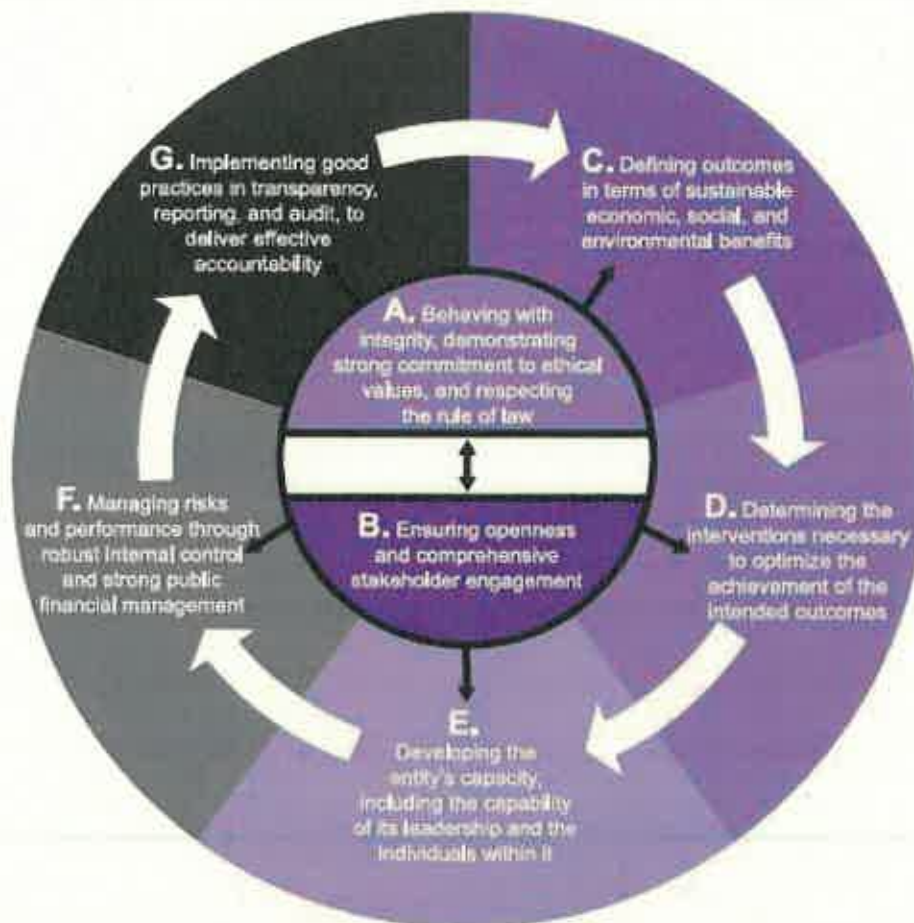
3.2. Various arrangements are in place to ensure that the Council complies with the local code of corporate governance. Some of these are listed in the table below.

A. Behaving with Integrity	
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
B.Openness and Engagement	
Customer Charter	Consultations
Comments, Compliments and Complaints Policy	Partnership Governance Framework
	Citizens' Panel
Freedom of Information arrangements	

C. Defining Outcomes (decision making)	
2030 Vision	Constitution including
Metro Strategy	• Responsibilities for Functions and Terms of Reference
Council Plan	• Councillors' and Co-opted Members' Code of Conduct
Nottingham Plan to 2020	• Procedures and Standing Orders
Business plans	
Decision-making protocols & records	
D. Interventions	
Performance Management Framework	Budget Monitoring
Early Interventions	
E. Capacity and Capability	
Member Induction & Training	Officer Induction
Performance Appraisal	Learning Zone
Peer Review	
F. Risks and Performance	
Risk Management Framework	Medium Term Financial Plan
Financial Regulations	Counterfraud team
G. Effective Accountability	
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

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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 25th 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 Statutory Posts	Summary of Role
Monitoring Officer	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 & Governance. Ensures that agreed procedures are followed including all applicable statutes, regulations and statements of good practice Manages arrangements for whistle blowing Ensures that professional advice is taken before making decisions with legal / financial implications, and reports to Boards and Committees include this advice
Section 151 Officer	Undertaken by the Director of Strategic Finance. The Council Provides the Council with advice on financial matters Manages the keeping of financial records and accounts Ensures that effective systems of internal financial control are maintained

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

Shared Prosperity – Reduced Poverty

Economy
- Enable a new business economy
- Ensure Nottingham's workforce is skilled
- Establish a reputation for business innovation

People
- Improve life chances for young people
- Ensure people are even safer

Infrastructure
- Create a vibrant and attractive city centre
- Deliver quality housing for all

Working Together

Leaders will
- Be creative, brave and ambitious
- Recognise good work and tackle poor performance
- Inspire, empower and motivate colleagues
- Reduce bureaucracy and deliver on promises

Colleagues will
- Focus on citizens and customers, not on processes
- Be trusted and treat citizens, customers and each other with respect
- Use discretion to solve problems
- Be involved in shaping the future

CITIZENS AT THE HEART

GREAT CITY · GREAT WORKFORCE · GREAT SERVICES · GREAT COUNCIL

The Nottingham Way

Services designed to
- Be value for money
- Fit together seamlessly
- Be right for citizens and customers

Services delivered that
- Are where, when and how citizens and customers need them
- Innovate and take risks
- Work together – with other services and partners

Delivering on Promises

Lead the City by
- Bringing businesses and partners together
- Setting long-term strategic direction for the city
- Promoting all Nottingham has to offer
- Supporting vulnerable people
- Being honest about the services we can provide

Empower communities by
- Enabling people to be independent
- Creating simple to use services
- Directing citizens to partner providers
- Raising aspirations

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.

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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

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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. 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.

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3.43. 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.

3.44. 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).

3.45. 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

3.46. 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
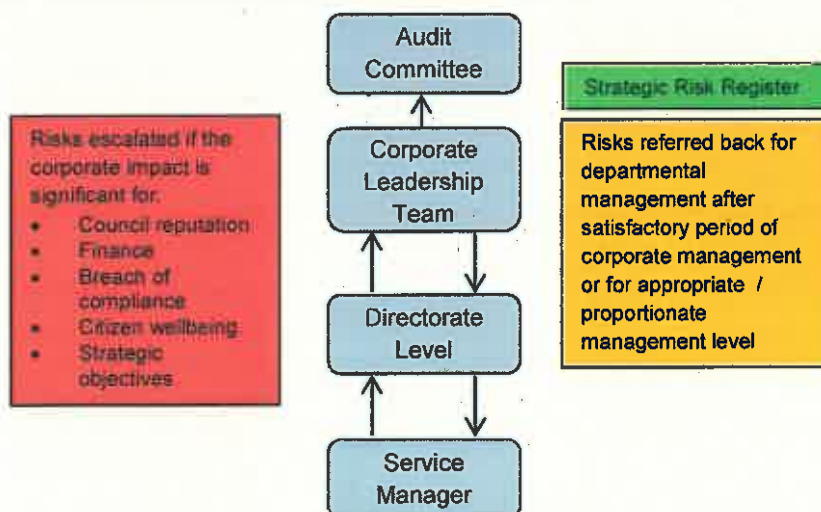
3.47. An essential element of good governance is the existence of sound arrangements for the management of financial resources.

3.48. 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
Strategies	MTFS					
		Income Generation Strategy	Capital Strategy & AMP	Treasury Management & Debt Repayment Strategies	Procurement Strategy	Risk Management Framework
Guidance	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
Plans	MTFP	Annual Budget	Capital Programme & AMP	Treasury Policy Statement	Procurement Checklist	Risk Responses
Governance	Constitution	Budget Management & Control statements & Local Code of Corporate Governance	Prudential Indicators & Annual Report	Contract & Finance Procedure Rules	Risk Register reporting and regular review
	Financial Regulations and Standing Orders					Audit Committee Reports & annual report

3.49. 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.

3.50. During 2017-18 work has been undertaken to ensure that group companies align their financial closedown with the NCC timetable and to identify a framework of best practice for governance of companies.

3.51. 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.

3.52. 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

3.53. 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.

3.54. 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.

3.55. The Register of Significant Partnerships, a mechanism of the Partnership Governance Framework, records the status of each significant partnership and is updated annually.

3.56. 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

3.57. 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.

3.58. The Council complies with relevant statutory financial reporting processes and guidance including production of a published Annual Statement of Accounts.

3.59. Annual performance highlights are published in The Nottingham Arrow in the summer with quarterly summaries published on Nottingham Insight.

3.60. 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

3.61. 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

3.62. 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

3.63. The Audit Committee also receives external sources of assurance, departmental arrangements for assurance, risk management, key systems, governance audits, companies, partnerships, departmental audits, fraud

3.64. 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 and compliance has been strengthened in 2017-18.

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 2017/18 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.

Fit for the Future

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.

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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.

Robin Hood Energy

6.31. 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

6.32. 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.

6.33. 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

6.34. PfP Capital has replaced the Igloo Fund as the private sector partner in Blueprint. The Igloo Fund had been working towards a deadline of 31st December 2018 to realise its investment.
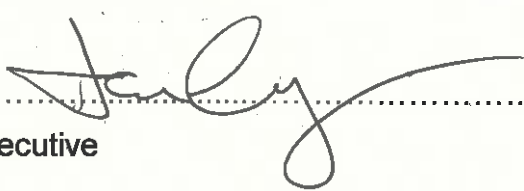
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7. Conclusion

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

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AUDIT COMMITTEE – 20 July 2018

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

1   REASONS FOR RECOMMENDATIONS

1.1   The Internal Audit Service (IA) impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes. It is an important part of the Council's governance and control framework.

1.2   The Public Sector Internal Audit Standards (PSIAS) require the production of a Charter, which defines the purpose, authority and responsibility of the IA function consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The Charter, which should be reviewed regularly, is to be presented to the Audit Committee for approval. The Charter is attached at Appendix 1 and reflects the standards set in the PSIAS.

2   BACKGROUND

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

2.2   The Accounts and Audit Regulations 2015 state that local authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

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

2.4   The Charter brought to the July 2017 meeting of this Committee was fully updated to reflect updated PSIAS requirements and actions agreed from both internal and external assessments of conformance with PSIAS, and Internal Audit's Quality Assurance and Improvement Plan.

2.5   This update to the Charter incorporates minor amendments to reflect improvements in practice during 2017/18 and changes to legislation.

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   The Accounts and Audit Regulations 2015

4.2   Public Sector Internal Audit Standards (Updated March 2017)

4.3   Audit Committee 14 July 2017 - Internal Audit Charter

Internal Audit Charter

1. Introduction

1.1. This charter sets out the purpose, authority and responsibility of the internal audit activity at Nottingham City Council. It establishes the position of internal audit and the chief audit executive within the organisation, including reporting relationships with the 'board'. It covers the arrangements for appropriate resourcing; defines the scope of internal audit activities and role of internal audit in any fraud-related work. It includes arrangements for avoiding conflicts of interest (**for example** if internal audit undertakes non-audit activities). It also sets out the objectives, framework and services delivered by internal audit (which are in accordance with the mandatory Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing as outlined in the Public Sector Internal Audit Standards (PSIAS)).

2. Purpose, Authority & Responsibilities
Definition of Internal Auditing

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

2.2. In accordance with the PSIAS internal audit shall have right of access to all

- records, documents, correspondence, data or information systems, including those of third parties,
- assets including those held on behalf of others,
- personnel, and
- premises or land and
- such information, explanations or assistance as it considers necessary to fulfil its responsibilities from any employee, contractor, supplier, customer, partner
- Senior Management and Statutory Officers, the Executive and Audit Committee

The rights above apply equally to organisations which have links with or provide services on behalf of Nottingham City Council, its group companies, joint ventures and partnerships (e.g.: wholly owned companies, voluntary organisations or other agents acting on behalf of the Council) where the City Council has a statutory or contractual entitlement to exercise such right.

These rights shall be included in all contractual arrangements entered into with such organisations.

3.   Responsibilities
     The Board (Audit Committee)

The PSIAS lays out the role of a Board in relation to specific standards. In a local authority an Audit Committee may satisfy the role of the Board. At Nottingham City Council the Audit Committee fulfils the role and responsibilities of the Board as laid out in the PSIAS. The Audit Committee helps to demonstrate the highest standards of corporate governance, public accountability and transparency in the Council's business.

3.1.   The key duties of the Board as laid out in the PSIAS and how compliance is achieved are as follows:

PSIAS ref	Duty of the Board	Compliance or Explanation
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

PSIAS ref	Duty of the Board	Compliance or Explanation
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.

Senior Management

3.2.   The role of Senior Management includes the following:

PSIAS Ref	Role
1000	Approve the internal audit charter
1100	Allow the Chief Audit Executive direct and unrestricted access to meet with them and report to them
1111	The chief executive to provide feedback for the Chief Audit Executive's performance appraisal
1130	Receive details of any impairment to independence or objectivity disclosed by the Chief Audit Executive
2010	Input to the risk based Internal Audit plan
2060 & 2500	Receive periodic reports from the Chief Audit Executive on internal audit activity that includes follow up reports
1312	Act as sponsor for external assessments of the Internal Audit function
1320	Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive
1322	Receive disclosure of non-conformance with PSIAS from the Chief Audit Executive
2020 & 2030	Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the impact of any resource limitations and other matters
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
2330 &	Approve release of engagement records or results to external parties, as appropriate

PSIAS Ref	Role
2440	

3.3. Within Nottingham City Council 'Senior Management' is defined as the Section 151 Officer, Statutory Officers, Corporate Directors and Directors. These officers will meet with the Chief Audit Executive on request (Standard 1100).

3.4. At Nottingham City Council the Chief Finance Officer (and S151 Officer) has line management responsibilities for the Chief Audit Executive at the time of approval of this report. The officer with line management responsibilities for the Chief Audit Executive will

PSIAS Ref	Role
1000	Approve the internal audit charter
1130	Receive details of any impairment to independence or objectivity disclosed by the Chief Audit Executive
1312	Act as sponsor for external assessments of the Internal Audit function
1320	Receive the results of the quality assurance and improvement programme
1322	Receive disclosure of non-conformance with PSIAS from the Chief Audit Executive
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
2330 & 2440	Approve release of engagement records or results to external parties, as appropriate

Chief Audit Executive

3.5. The Chief Audit Executive is a professionally qualified (CMIIA, CCAB or equivalent) person with suitable experience in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the PSIAS Definition of Internal Auditing, the Code of Ethics and the Standards. Within Nottingham City Council the Head of Audit & Risk is the designated 'Chief Audit Executive'.

3.6. The Chief Audit Executive will maintain an effective working relationship with the Audit Committee, this will include:

PSIAS ref	Role
1000	Prepare and submit for approval the internal audit charter
1110	Prepare an annual confirmation with regard to the organisational

PSIAS ref	Role
	independence of the internal audit activity
1110	Report on whether there are inappropriate scope or resource limitations
1130	Report for approval significant* additional consulting services agreed during the year and not already included in the audit plan, before the engagement is accepted
1312	Discuss the form of external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest
1320 & 1322	Report the results of the Quality Assurance and Improvement Programme including the assessor's evaluation with respect to degree of conformance and disclosure of non-conformance and its impact
2020 & 2030	Communicate internal audit's audit plan and resource requirements including the approach to using other sources of assurance, any significant* changes and the impact of any resource limitations and other matters
2060	Report 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.
2450	Deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement
2500	Establish a follow up process to monitor that management actions have been effectively implemented or that senior management has accepted the risk of not taking action
2600	Communicate to senior management and if necessary the board where concluding that management has accepted a level of risk which is unacceptable to the organisation
1000	Attend board meetings and contribute to the agenda.
	Arrange for the provision of training and technical support to keep board members informed of relevant legislation, good practice and governance issues.
	Participate in the board's review of its own remit and effectiveness.
	Access to all reports. Those considered to be of the highest risk will be highlighted and brought to their attention.

3.7. Progress reports will include the outcomes of internal audit work in sufficient detail to allow the board to understand what assurance it can take from that work, and / or what unresolved risks or issues it needs to address.

3.8. The annual internal audit report will include an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

3.9.   In addition the Chief Audit Executive will:

PSIAS ref	Role
2330	Control access to and develop retention requirements consistent with the organisations guidelines and other requirements for engagement records and obtain approval of senior management prior to releasing such records to external parties, as appropriate.
2340	Ensure that engagements are properly supervised
2440 & 2421	Review and approve communication of results of engagements to parties who can ensure that the results are given due consideration and correct any final communication error or omission to all relevant parties. Control release of results to parties outside the organisation.

Internal Audit

3.10.   Internal Audit's responsibilities include looking at how risk management, control, governance processes, and other resources are managed, and working with managers to add value, and improve the security, efficiency and effectiveness of their processes.

3.11.   Individual auditors are responsible for ensuring that they operate with due professional care. This means they will follow the Nottingham City Council Internal Audit Code of Ethics in section 12 of this charter.

3.12.   Internal auditors will make every effort to ensure a high quality service that complies with the PSIAS.

4.   Position within the Organisation (including reporting relationship with the board)

4.1.   Internal Audit will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. Internal Audit will not have any operational responsibilities.

4.2.   Accountability for the response to advice, guidance and recommendations made by Internal Audit lies with management. Management can either accept or implement the advice and recommendations or reject it, having regard to any statutory responsibilities and overriding instructions of the Council. Internal Audit retain the right to review the relevant policies, procedures, controls and operations at a later date, notwithstanding any advice, guidance or recommendations made.

4.3. The Chief Audit Executive will report the results of audit work in accordance with responsibilities set out in this charter and mandated by PSIAS including reporting to senior managers and the board.

Note: The terms 'senior managers and the board' are defined above.

5. Resourcing

5.1. The service will be delivered to professional standards by appropriately qualified, knowledgeable, experienced and skilled staff. The Chief Audit Executive will define the mix of these attributes through the Internal Audit Training Strategy, which will be updated on an annual basis to maintain an effective and agile audit service, support the audit plan and performance appraisals.

5.2. Internal Audit will seek more efficient and effective ways to deliver the audit service, provide assurance to councillors and help improve value for money and quality of Council services. Internal Audit will work to introduce continuous audit with the aim of evaluating control effectiveness across key systems on an ongoing basis and highlight high risk transactions or events on a timely basis.

5.3. Internal Audit will work with partners from local government and other sectors as necessary to ensure we have the right skills and resources to deliver a quality driven professional service to the Council.

5.4. Internal Audit will work in partnership with other inspection bodies to ensure that we get the maximum audit coverage from the resources invested; taking assurance from each other's work where appropriate.

5.5. If the Chief Audit Executive or those charged with governance consider that the adequacy and sufficiency of internal audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the definition of Internal Audit, they will advise Senior Management and, if appropriate, the Executive accordingly.

5.6. Sufficiency of Internal Audit resources will be determined in accordance with the Internal Audit Planning Methodology.

6. Scope

6.1. The scope for Internal Audit is the control environment comprising risk management, control and governance of Nottingham City Council, and includes all of the council's, its partners', group and associate

companies' operations, resources, services and responsibilities in relation to other bodies.. It covers all financial and non-financial related activities, systems and resources of the Council at all levels of its structure.

6.2. The internal control system is defined as including the whole network of systems and controls established by management to ensure that the objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the Chief Audit Executive will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives. Internal Audit may contribute to this by identifying elements of an appropriate corporate assurance framework.

6.3. Internal Audit will consider the results of the Council's risk management processes. Where the results indicate adequate action has already been undertaken to manage the risks / opportunities Internal Audit will take this into account. Where the results indicate that insufficient work has been done then Internal Audit may undertake a separate review.

6.4. The scope of audit work extends to services provided through partnership arrangements. The Chief Audit Executive will decide, in consultation with all parties, whether Internal Audit conducts the work to derive the required assurance or rely on the assurances provided by others. Where necessary, the Chief Audit Executive will agree appropriate access rights to obtain the necessary assurances.

6.5. Internal Audit will not undertake tasks, which are likely to compromise its independence, internal control functions or certification processes.

6.6. To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including but not limited to any of the following:
- review of controls within existing systems and systems under development
- compliance with policies and procedures including Financial Regulations
- transactions testing to ensure accuracy of processing
- contract audit
- establishment reviews
- computer audit including data analytics
- anti-fraud work

- investigation of suspected fraud and irregularities
- value for money reviews and transactions testing
- provision of advice to Directorates and establishments including consulting services
- provision of audit services to external clients.

Consulting Service

6.7. The PSIAS defines consulting services as follows: "Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training." No non-audit activities will be undertaken. The terms of reference of any consulting services will be designed to avoid impairment of objectivity for future audits.

6.8. The PSIAS requires that approval must be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.) Within Nottingham City Council significant is defined as any single assignment equivalent to 5% of annual planned days; these will be brought to the Audit Committee for approval. The decision to include it in the plan will depend on the level of risk identified and whether reliance can be placed on opinions provided by others.

Fraud & Corruption

6.9. The primary responsibility for the prevention and detection of fraud and corruption lies with management, who are also responsible for the management of fraud risks. In support of this, internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest when performing their individual audits. They will also have sufficient knowledge to identify indicators that fraud or corruption may have been committed.

6.10. The arrangements within the City Council's Counter Fraud Strategy and Fraud Response Plan, requiring that the Chief Audit Executive is notified of all suspected or detected fraud, corruption or impropriety, immediately. This enables the response plan to be implemented and helps to inform the Chief Audit Executive's annual internal audit opinion and the risk-based plan

6.11. The role of Internal Audit in any fraud-related work will be determined in accordance with the Fraud Response Plan.

7. Avoiding Conflicts of Interest

7.1. Internal audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.

7.2. The Chief Audit Executive will maintain a register of interests for Audit staff. Any interests declared will be taken into account when planning and delivering work.

7.3. Arrangements exist to enable audit managers to report directly to the Section 151 Officer on any activities that are managed by the Chief Audit Executive.

7.4. Assignment arrangements preclude internal auditors from assessing specific operations for which they were previously responsible or where a substantive conflict of interest is identified including previous consulting activity that could be seen as impairing objectivity.

8. Business Plan Objectives

- *To deliver an internal audit service that meets professional and mandatory standards and delivers suitable assurance to the Council.*
- *To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*
- *To deliver an effective counter fraud service to prevent, detect and deter fraud and error.*

9. Statutory Requirements

9.1. There is a statutory requirement for Local Authorities to have **an** internal audit and counter fraud function. This service is provided for the Council in-house. The **Chief Audit Executive** provides a continuous internal audit and counter fraud service and reviews the Council's controls and operations.

9.2. The services provided are in accordance with the following legal and professional requirements subject to any enacted amendments:

Legal:

- *Accounts and Audit Regulations 2015* [requirement for an internal audit and requirement for officers or councillors to provide information and records requested, the requirement to take account of PSIAS]
- *Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013* [powers to require information in relation to council tax offenders]

- *Criminal Justice Act 2003*
- *Criminal Procedures Investigation Act 1996*
- *Data Protection Act 2018 & General Data Protection Regulation*
- *Fraud Act 2006*
- *Bribery Act 2010*
- *Freedom of Information Act 2000*
- *Human Rights Act 1998*
- *Local Government Acts*
- *Police & Criminal Evidence Act 1984*
- *Proceeds of Crime Act 2002 & Criminal Finances Act 2017*
- *Regulation of Investigatory Powers Act 2000*
- *Social Housing Fraud (Power to Require Information) Regulations 2014*
- *The Protection of Freedoms Act 2012*
- *Theft Act 1978*
- *Welfare Reform Act 2012*
- *Public Interest Disclosure Act 1998*

Professional Requirements:

- *Relevant CCAB professional guidance including the Public Sector Internal Audit Standards*
- *Department for Work & Pensions (DWP) Performance Standards Framework*
- *Information Security - BS EN ISO27001:2013*

9.3. The Chief Audit Executive reports to the Section 151 Officer under the Local Government Act 2002.

9.4. The Council adopted the CIPFA / SOLACE code of corporate governance in July 2002. This code together with the Statement of Recommended Practice (SORP) 2002 introduced the requirement for an annual statement of assurance to be made. The Council has subsequently reviewed / revised their Local Code of Governance in accordance with successive updates to the CIPFA / SOLACE Framework - Delivering Good Governance in Local Government. This means that the Chief Executive and Leader are required to sign a formal corporate assurance statement (known as the Annual Governance Statement (AGS)) on the effectiveness of the Council's governance arrangements and identify any significant governance issues.

9.5. Internal Audit has a role to play in advising Directors regarding the processes, and reporting mechanisms needed to compile their own assurance statements, which the AGS will be based on. An assurance framework has been introduced which places greater reliance on 'management assurance'. This is obtained from individual officers around specific areas of risk and the assurance

documentation completed annually at both directorate and business unit level.

9.6. In addition the Council is developing an assurance framework and assurance mapping in order to better achieve its objectives.

9.7. The audit plan is risk based and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place. The Chief Audit Executive opinion will be prepared using the following sources of assurance, Internal / External Audit work, the AGS process, Risk Management processes and assurances identified in the assurance framework. Internal Audit will work with other assurance providers to improve overall coverage and avoid duplication of effort.

9.8. The Chief Audit Executive gives an opinion on the internal control environment, which forms part of the AGS, which the Council is legally required to produce as part of the final accounts. The work undertaken by Internal Audit makes an important contribution to providing assurance around the control environment, and the content of the AGS. The categories of work include but are not limited to: -

- *Section 151 work around the major and significant financial systems*
- *IT Governance*
- *Audit around the major risks and the risk management process*
- *Audit of corporate governance / business control assurance arrangements*
- *Evaluating the assurance available from other sources*
- *Counter fraud activities*
- *Work to ensure adequate whistleblowing arrangements*

10. The Annual Audit Plan

10.1. The Internal Audit Planning Methodology involves the following steps:

1. **Understand corporate objectives and risks** by reviewing the Council Plan and Corporate Risk Register
2. **Understand departmental risks** by reviewing departmental risk registers
3. **Consider local and national issues** and how Nottingham City Council is affected
4. **Consult with key stakeholders within NCC** to identify potential emerging risks and to consider the expectations of stakeholders for internal audit opinions and other conclusions
5. **Utilise the Assurance Framework** to identify any possible gaps that represent potential reviews for inclusion in the Audit Plan, this will include external providers including external auditors
6. **Consider the requirements of the PSIAS** and ensure that the Internal Audit Plan reflects the expectation of the standard.

7. **Consider the results from Internal Audit reviews/recent experience** and put forward areas of concern as potential reviews including professional judgement on the risk of fraud and error
8. **Determine the minimum level of audit coverage**, timing and scope of audits to provide the annual Head of Audit Opinion on the control environment. This includes determining the approach to using other sources of assurances and any other work required to place reliance upon those other sources
9. **Consider the level of resources available** for the delivery of the audit plan including that these are appropriate, sufficient and effectively deployed.

10.2. The number of days allocated in the plan will include the resources required to provide internal audit services to external clients.

10.3. Following discussions with the External Auditors Internal Audit agreed that each of the systems they designate as 'key financial systems' would feature in the audit plan, unless otherwise directed.

10.4. Internal Audit will assess the Council against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Prevention and detection of fraud remains a priority for the Council.

10.5. Internal Audit will continue to develop its approach to audit work following best practice to put more emphasis on reducing the risk of fraud. Counter fraud activity will include both reactive and proactive fraud work and providing further assistance to officers to better manage the risk of fraud through prevention, detection and deterrence. This will include work in relation to the NFI.

10.6. Follow up audits will be undertaken in accordance with the Internal Audit Follow-Up Policy which ensures compliance with PSIAS requirements.

10.7. Consultancy work will be undertaken within the limitations of existing resources.

10.8. A Charging Policy has been implemented. An appropriate charge will be made based on the type of work involved, priority and resources required. Requested work will be refused if in the opinion of the Chief Audit Executive it fails to provide an adequate level of prioritised assurance.

11. Quality Assurance and Improvement

11.1. In accordance with PSIAS the Chief Audit Executive (CAE) has developed and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity.

11.2. The Quality Assurance and Improvement Program (QAIP) is designed to provide reasonable assurance to the various stakeholders that Internal Audit:

a) Performs its work in accordance with its Charter, which is consistent with the PSIAS

b) Operates in an effective and efficient manner; and

c) Is perceived by stakeholders as adding value and improving Internal Audit's operations.

d) To that end, Internal Audit's QAIP will cover all aspects of the Internal Audit activity (PSIAS Attribute Standard 1300).

11.3. The Chief Audit Executive is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consulting.

11.4. All members of the Internal Audit team have responsibility for maintaining quality.

12. NCC IA Code of Ethics

The code of ethics is a mandatory element of public sector internal audit as a result of the Public Sector Internal Audit Standards. The following requirements are set out by the standards and apply to NCC IA.

Components

1 Principles that are relevant to the profession and practice of internal auditing;

2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services.

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

1.1 Shall perform their work with honesty, diligence and responsibility.

1.2 Shall observe the law and make disclosures expected by the law and the profession.

1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.

1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.

2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.

2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.

4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.

4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life, which are as follows:

The Seven Principles of Public Life

The Principles of public life apply to anyone who works as a public office-holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the civil service, local government, the police, courts and probation services, NDPBs, and in the health, education, social and care services. All public office-holders are both servants of the public and stewards of public resources. The principles also have application to all those in other sectors delivering public services.

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work.

They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

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