



NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 14 July 2017

Time: 10.30 am

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

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

Corporate Director for Strategy and Resources

Governance Officer: Kate Morris **Direct Dial:** 0115 876 4353

- 1 MEMBERSHIP**
To note that Councillor Toby Neal will be replaced by Councillor Adele Williams as a member of the Committee
- 2 APPOINTMENT OF VICE CHAIR**
- 3 APOLOGIES**
- 4 DECLARATIONS OF INTERESTS**
- 5 MINUTES** 3 - 10
To confirm the minutes of the meeting held on 28 April 2017
- 6 CORPORATE PERFORMANCE MANAGEMENT FRAMEWORK - UPDATE 2016/17** 11 - 14
Report of the Strategic Director for HR & Organisational Transformation
- 7 TREASURY MANAGEMENT 2016/17 ANNUAL REPORT** 15 - 30
Report of the Director of Strategic Finance
- 8 EXTERNAL AUDIT PROGRESS REPORT - KPMG** 31 - 44
Report of KPMG
- 9 AUDIT COMMITTEE ANNUAL REPORT 2016/2017** 45 - 62
Report of the Chair of the Audit Committee

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13	EMSS ANNUAL REPORT 2016/2017 Report of the Director of Strategic Finance	131 - 132
14	FUTURE MEETING DATES To consider meeting at 10.30am on the following Fridays: 22 September 2017 24 November 2017 23 February 2018 27 April 2018	
15	EXCLUSION OF THE PUBLIC To consider excluding the public from the meeting during consideration of the remaining item(s) 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.	
16	EMMS ANNUAL REPORT - EXEMPT APPENDIX Report of the Director of Strategic Finance	133 - 166

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 LH 2.17 - Loxley House, Station Street, Nottingham, NG2 3NG on 28 April 2017 from 11:01am – 12:12pm

Membership

Present

Councillor Sarah Piper (Chair)
Councillor Leslie Ayoola
Councillor Anne Peach
Councillor Andrew Rule (minute 58 onwards)

Absent

Councillor John Hartshorne
Councillor Dave Liversidge
Councillor Toby Neal
Councillor Malcolm Wood
Councillor Steve Young

Colleagues, partners and others in attendance:

Theresa Channell - Head of Strategic Finance & Deputy Section 151 Officer
John Maddison - Team Leader – Subsidy & Information
Kate Morris - Governance Officer
Jane O'Leary - Insurance and Risk Manager
Shail Shah - Head of Audit and Risk
John Slater - Group Auditor
Thomas Tandy - Audit Manager – KPMG

55 APOLOGIES FOR ABSENCE

Councillor Malcolm Wood - Personal
Councillor Steve Young - Personal

Ian Roper, Commercial Finance Team Leader for Contract Management

56 DECLARATIONS OF INTERESTS

None.

57 MINUTES

The minutes of the meeting held on 24 February 2017 were confirmed as a correct record and signed by the Chair.

58 CORPORATE RISKS FOR FURTHER SCRUTINY

Theresa Channell, Head of Strategic Finance, gave a presentation on Corporate Risks for further scrutiny that focused on funding. She highlighted the following points:

- (a) Changes in funding of services from national taxation to local taxation and reliance on funding from Council and Business Tax is a risk that is classed as red, or severe, if it occurred as it would impact on the Council's ability to provide services in an effective way adversely affecting the citizens of Nottingham;
- (b) in 2018/19 there will be a budget gap of £12million rising to £18million in 2019/20. The Council has committed to delivering £24million savings in 2017/18 and has made over £204million in savings since 2010;
- (c) savings have been made through partnership work with organisations such as the NHS to jointly deliver services to citizens. This kind of partnership work has allowed the Council to continue to provide services to citizens as outlined in the Council Plan and is key to reducing funding gaps;
- (d) 43% of Council funds are spent on Children and Adult services and these services are more likely to feel the impact of reduction in funding;
- (e) to deliver further saving the Council aims to continue its success in commercialisation opportunities alongside reducing demand for services by focusing on early intervention;
- (f) the Council will also work on modernising and redesigning the services and identifying and addressing inefficiencies to offer the same outcomes but through a different model;
- (g) the budget strategy aims to deliver savings but also to protect frontline services and minimise the impact of changes on vulnerable citizens;
- (h) there has been a significant reduction in funding from central government through the Revenue Support Grant (RSG) since 2011/12. As a result of this Council tax has been increased which goes towards covering the shortfall;
- (i) Council tax income can be influenced by the number of new homes being built and what band they then fall within, however there is very little movement of this figure in Nottingham due to the high number of lower band properties;
- (j) alongside RSG there is an additional top up payment made to the Council when funding does not match needs. This top up has been fixed through a 4 year settlement with Central Government up to 2019/20;
- (k) changes to Business rates mean that 100% retention is expected in 2019/20;
- (l) beyond 2019/20 it is uncertain how funding will look;
- (m) projected income from Council Tax in 2017/18 is £100.947million, increases are capped at 1.99% + 3% adult social care precept in 2017/18. Any increase beyond this figure would require a local referendum;
- (n) the assumed collection rate of Council Tax is 96.4% and there are systems in place to collect outstanding Council Tax and recover debts;

- (o) Nottingham City has a relatively low tax base, 63,368 Band D equivalents, due to high numbers of student exemptions (10,947 in October 2016), 91.9% of the 135,201 dwellings fall into the lower bands;
- (p) Business Rates income is projected to be £67.987million in 2017/18 which is 49% of the total. The rate of Business rates is set centrally by government and cannot be influenced at a local level;
- (q) there is still a degree of volatility around the outstanding appeals that currently amount to £19million;
- (r) 100% retention is expected in 2019/20 and will be accompanied by a new formula to measure service demand and need. The scheme will be cost neutral nationally and some form of redistribution is expected. Appeals will be centralised and outside the Local Authority's control. There may be some scope for limited local control of ratings multiplier;
- (s) there is suggestion that local pooling schemes could be allowed, there is a piece of work currently being undertaken to look at what this would mean for Nottingham City;
- (t) a technical consultation is due to be completed on 3 May 2017, the results of which will be brought to a future meeting;
- (u) the Medium Term Financial Strategy aims to increase income, control costs and deliver targeted saving, the budget strategy in 2017/18 looks to manage demand/cost pressures, increase income, and reorganise the way services are delivered as priority;
- (v) the general fund has been increased from £9million in 2016/17 to £11million in 2017/18 in response to this risk. The Chief Finance officer has stated that the budget is robust and that resources are adequate.

Following questions and comments from the Committee the following further points were made:

- (w) there is very little scope for the Council to influence the banding of properties. The Valuation Office is responsible for giving a property a value and therefore the council tax banding. Concerns were raised that student properties were given low bandings despite artificially high rents which presented a false picture. There was also discussion around various anomalies within the housing market of properties being in bands much lower than were expected;
- (x) in an effort to fully understand the changes being made staff are attending workshops and briefing events, there is work taking place with other Core Cities and with other local authorities looking at pooling arrangements and what they would mean for individual Councils;
- (y) it is not likely that the student exemption from Council Tax will be reconsidered or reviewed in the foreseeable future;

- (z) the Capital Programme is very important as is continued investment in the City to encourage more businesses into the City;
- (aa) Charities get mandatory relief from business rates from Central Government and there is also a discretionary relief after 20% that can also be applied at a local level;

RESOLVED TO:

- (1) thanks Theresa Channell for her attendance and presentation to the Committee and to note its contents;**
- (2) ask Theresa Channell to contact the Valuation Office and feed back to Committee Members on the rules in place around valuation of new properties;**
- (3) Theresa Channell to brief Councillors on the level of debt and arrears to the Council through Council Tax and Business Rates;**
- (4) invite a suitable officer to attend a future meeting to update the Committee on the Accounts receivable, current position and outstanding debt;**
- (5) invite Theresa Channell back to a future meeting to update the Committee on the outcome of the technical consultation on Business Rates;**
- (6) invite a suitable officer to attend a future meeting to present to the Committee on economic regeneration and reliefs available to small and micro businesses.**

59 HOUSING BENEFIT SUBSIDY CLAIM QUALIFICATIONS 2015/16

John Maddison, Team Leader – Subsidy and Information presented the report of Ian Roper Commercial Finance Team leader for Contract Management on Housing Benefit Subsidy Claim Qualification 2015/16, highlighting the following;

- (a) the audit report from KPMG brought to the last meeting of the Audit Committee highlighted a high error rate, 19%, in the housing subsidy claims;
- (b) the errors themselves were generally small errors and have not cost the Council large amounts of money, most errors resulted in small overpayment which can be claimed back either through current benefits or through invoice;
- (c) in terms of qualification value, the figure has fallen from £1.215million in 2013/14 to £807,000 in 2015/16 and the financial; accuracy level this increased from 99.17% in 2013/14 to 99.4% in 2015/16 which are not inconsistent with the findings of audits of other large unitary authorities, as acknowledged by KPMG in their report;

- (d) an action plan has been drawn up to tackle the mistakes that are commonly being made which includes the following:
- Case studies and help sheets for all error types,
 - 1 hour weekly training sessions in team meetings to work through error examples and exercises with teams,
 - Desk-Aides for identified themes,
 - A business case is being prepared to provide additional resource for quality checking, to allow in year quality checks for known areas of risk, pre-submission of the Housing Benefit subsidy claim.

Following questions and comments from the Committee the following additional points were made:

- (e) the software installed over recent years enables automatic updates from both HM Revenue and Customs and from Department of Work and Pensions direct into the Council system which reduced error rate. With these direct links it means that 65-70% of all updates to details are made automatically within a couple of days of the changes being made;
- (f) Universal Credit takes people out of the subsidy claim and so caseload is dipping slightly. Further roll out of Universal credit will impact on caseload further, but at present as recipients are limited to new claimants who are single the impact is not much.

RESOLVED TO:

- (1) note the key findings from the KPMG audit of Grants and Returns report specific to the Housing Benefit Subsidy Claim 2015/16 and the Councils response;**
- (2) invite Ian Roper back to a future meeting to update the Committee on progress made in error reduction;**
- (3) thank John Maddison for his attendance and for presenting the report on Housing Benefit Subsidy Claim Qualification;**

60 INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION

Shail Shah, Head of Audit and Risk, presented a report on an Internal Audit Report selected for Examination. He informed the Committee that the Equality Impact Assessment (EIA) action plan had been updated and that a lot of work had been completed. There is still plenty of work left to do but most work has been started and is progressing in the right direction.

Following questions and comments from the Committee the following information was highlighted:

- (a) The issue of EIA keeps cropping up in various scrutiny meetings and it is good to see that it is becoming part of the culture of Nottingham City Council;

- (b) The Committee agreed that the service had responded proportionately but would like further reassurance that the work continues to move at a satisfactory pace and in the right direction;

RESOLVED TO:

- (1) Note the updated position with regards to the Internal Audit report on Equality Impact Assessments;**
- (2) Invite Imogeen Denton to a future meeting to update the Committee on further progress of work on the EIA Action Plan;**

61 INTERNAL AUDIT ANNUAL WORK PLAN 2017/2018

Shail Shah, Head of Audit and Risk, introduced a report on Internal Audit Annual Work Plan 2017/2018. He highlighted the following points:

- (a) The plan presented to the Committee is the summary plan. The detailed plan will return to the Committee every quarter for review.
- (b) Organisational independence of internal audit is satisfactory as is the scope and current resources;

RESOLVED to:

- (1) approve the Internal Audit Plan for 2017/2018;**
- (2) note the head of Internal Audit's opinion regarding the organisational independence of Internal Audit;**
- (3) note the Head of Internal Audit's opinion regarding whether there are inappropriate scope or resource limitations;**

62 AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME

Shail Shah, Head of Audit and Risk, introduced a report on the Audit Committee Terms of Reference and Annual Work Programme. He highlighted the following points:

- (a) the terms of reference and the work plan do not differ significantly from last year. There has been the addition of Public Sector Internal Audit Standards (PSIAS) duties of the board which are detailed in Appendix 3 of the report
- (b) Internal Audit has recently been peer reviewed and feed-back has been positive. At present only the draft report is available but indications are that the second highest level has been achieved by Nottingham City Council;

- (c) Thanks were extended from Head of Audit and Risk and Group Auditor to the Committee for the work put in towards the peer review;

RESOLVED to:

- (1) note the role and functions of the Audit Committee including the additional elements prescribed by the PSIAS and the benefits arising from its existence;**
- (2) endorse the outline work programme as set out in Appendix 1 including the Assurance Plan and the terms of reference at Appendices 2 and 3;**

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AUDIT COMMITTEE – 14 July 2017

Title of paper:	Corporate Performance Management Framework – Update 2016/17	
Director(s)/ Corporate Director(s):	Richard Henderson, Strategic Director for HR & Organisational Transformation	Wards affected: All
Report author(s) and contact details:	Chris Common, Senior Corporate Performance Specialist 0115 8763435 chris.common@nottinghamcity.gov.uk	
Other colleagues who have provided input:	None.	
Recommendation(s):		
1	That the Committee note the progress made since the Corporate Performance Management Framework (PMF) was adopted in April 2014.	

1. REASONS FOR RECOMMENDATIONS

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

2. BACKGROUND

2.1. The PMF was approved for adoption by the Audit Committee on 28 February 2014. An initial progress report was made to the committee in November 2014 and there was also an update on progress in the annual chair's report in May 2015.

2.2. As outlined in the original report, the PMF was revised as part of the Good to Great ambitions for the City and the establishment of a strong performance culture which places citizens at the heart of everything the Council does.

2.3. Following the adoption of the current Council Plan in 2015, the PMF was subsequently revised in September 2015 to reflect this and updated to ensure it remains appropriate and contemporary to the environment the Council operates in.

3. Progress

3.1. The key to the success of the PMF as a driver for achievement and improvement is for it to be embraced as an integral part of our day-to-day activity. Since its adoption, the PMF has become integrated as the key guiding document to corporate and strategic performance management and business planning. The Strategic Business Improvement (SBI) Team (formerly Organisational Planning & Performance) continue to work with colleagues across the Council to embed and develop the PMF to ensure that it helps to deliver our ambitions and the best outcomes for the City and its citizens. Since the initial adoption in 2014, the key work has included:

- **Revisions the PMF** – as stated in the PMF, routine reviews to the document are essential to keep it fit for purpose. The last significant review took place in the autumn of 2015 and this took into account the then newly introduced Council Plan and the newly developed 'Good To Great' Message Map. The document has been

kept under review since then and, while the current document is considered as remaining generally appropriate and fit for purpose, it is now felt that some updates are required and a revised version is being planned for introduction in late 2017.

- **Performance Management training** – In 2015/16, there was a series of Performance Management training workshops to introduce and refresh managers in relation to the key concepts and principles of performance management based on those outlined in the PMF. 150 managers attended the courses with nearly all those attending reporting high levels of satisfaction. In 2016/17, rather than run as stand-alone workshops, the training was integrated into the Institute of Leadership Management (ILM) and Inspire Leadership programmes so that managers can better understand performance and business management in the context of their overall management improvement.
- **Covalent** – In March 2016, the Council extended its software licence agreement for the Covalent performance management system for another five years to 2020. This was confirmation of the value and importance the Council places on the system to improving performance management at the Council. Covalent is now based on a more dynamic and user friendly web format which saw an improvement to the usage and the development of interactive ‘portals’ for managers. Substantial work has taken place to develop these and there are now over 250 ‘portals’ in use on the system. Currently, there are nearly 360 active users with over 1,000 performance indicators and 2,100 actions in use on the system.
- **Business Planning** – having good business plans is considered as the central tenet to developing effective performance management. Therefore, considerable work has taken place to get all services to develop their business planning process. In 2016, a *revised business planning template* for all services to utilise was introduced corporately and the SBI team provided dedicated advice and support to all departments and their services on this. By April 2016, all services were covered by an appropriate and effective annual business plan for the forthcoming year and this was repeated for 2017/18.
- **Performance Boards** – there has been improvements made to the sequencing of performance reporting in that department’s own quarterly performance boards meet ahead of Corporate Leadership Team (CLT)’s own performance meetings. This helps to ensure issues are discussed and addressed effectively at the right level prior to them being presented to the Chief Executive and his senior management team. Improvements were also made to the style and content of CLT’s performance reports to make them more effective and accessible; focusing on ‘exceptions’ to ensure any areas of concern are dealt with directly. They also now integrate reports on the progress made against the equalities plan targets.
- **Reporting Performance to Council Executive** – in 2016, improvements were made to how the progress of the Council Plan was reported to and discussed by the Council Executive. This includes dedicated performance discussions being held each quarter with each executive portfolio holder by the SBI Manager to update them on the key issues in their portfolio with particular emphasis on their Council Plan objectives. Council Executive then consider the progress quarterly at dedicated performance meetings with each of the portfolio holders presenting the issues arising in their portfolio to the meeting.
- **Benchmarking** – the ability to compare performance with others is an important component of the PMF. The removal of the statutory compulsion to report performance to central government makes it difficult to find robust comparators with other authorities as we now longer have to collect and report the same information. We are working with other Core Cities on this aspect and are able to provide comparisons with a small number of our key performance indicators. This

information is reported to CLT as part of their quarterly performance reports if available to enhance understanding of the direction of travel and the scale of improvements needed if necessary. This is supplemented with any nationally reported comparative data in areas such as the economy, employment and crime.

- **Challenge**

- 'Sector led improvement' support has been recommended as a way of providing external challenge to the way the Council operates since the Audit Commission's compulsory assessments were abolished in 2011. In December 2016, it was agreed that the Council should make use of the Local Government Association's Corporate Peer Challenge offer and so in May 2017, a team of senior officers and councillors from other Councils spent a week at the City Council looking closely at a range of aspects including performance management. Their initial findings were that the Council was performing well against its strategic priorities with regular reporting of progress to all levels in place. Amongst their recommendations was to improve reporting of statutory service provision. A full report from the peer challenge team is expected in June 2017.
- Customer feedback is an essential element of performance management to ensure the views of those receiving the services are considered and, if appropriate, taken into account when reviewing the ways they are delivered. The 2016 citizens' survey showed that 71% of citizens are satisfied with the way the Council runs things and 63% feeling that the Council offers value for money. While it would be impossible to attribute these values directly to how we performance manage the Council, they do show that the majority of citizens feel the Council is well run with good services and having good performance management is important in making this happen.
- Targeted audits of key performance indicators by Internal Audit were introduced in 2015/16. The first round of these looked specifically at some of the performance indicators used to measure the key objectives of the Council Plan with the intention of auditing all such PIs by the end of the current Council Plan (in March 2019). These audits focus primarily on the calculation of the PI. One of the key recommendations that has been implemented is improvement to make it much clearer about what is measured and how the data/information is derived.

4. **Next Steps**

In the three years since the initial revised PMF was adopted, there has been significant progress made in improving performance management at the Council, recognised the Peer Corporate Peer Challenge team in May this year. However, there are areas that need some attention and therefore, focus will be made on these over the coming year and beyond. These include:

- Further revision to the PMF to ensure it remains appropriate and up to date (by December 2017). This will be put to Audit Committee for approval at that time.
- Improvements to the information on the intranet to ensure easier access to the PMF and associated supporting documents, advice and support (by September 2017)
- Improvements to how performance issues are 'tracked' once raised at CLT and Executive. This will ensure that any rectifications and responses to the issues are managed more rigorously and persistently (by September 2017).
- Development of e-learning training packages for performance and business management (by October 2017)

- Further development in the use of Covalent especially the use of the interactive 'portals' to provide user friendly and visually attractive access to a service's key performance against their key objectives
- Development of an action plan in response to the recommendations made by the Corporate Peer Challenge team such as developing the reporting of statutory provision

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

Performance Management Framework (revised Sept 2015) – attached.

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

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

AUDIT COMMITTEE – 14 July 2017

Title of paper:	TREASURY MANAGEMENT 2016/17 ANNUAL REPORT	
Director(s)/ Corporate Director(s):	Geoff Walker, Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Glyn Daykin, Senior Accountant - Treasury Management 0115 8763724 glyn.daykin@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Members of Treasury Management Panel	
Recommendation(s):		
1	To note the performance information in relation to Treasury Management for 2016/17.	

1 REASONS FOR RECOMMENDATIONS

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

2 BACKGROUND

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

3 TREASURY MANAGEMENT ACTIVITY IN 2016/17**3.1 - Key Points:**

This report sets out the 2016/17 performance in respect of the management of the Council's external debt and investments (i.e. treasury management). The key points are:

- the average rate of interest payable on external debt decreased from 3.791% at 31 March 2016 to 3.270% at 31 March 2017 (see section 3.4);
- the average rate of interest earned on short-term investments in 2016/17 was 0.691%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged 0.20% for the same period (see section 3.5);
- the latest estimate for 2016/17 was £71.588 against an actual General Fund Treasury Management expenditure of £71.158m (see section 3.9);
- there were no breaches of the Prudential Indicators set for 2016/17 (see section 3.8).

3.2 - Growth and Inflation:

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November.

After a disappointing growth in quarter 1 of +0.2% the economy improved throughout the year despite the referendum shock and finished with quarter 4 figures reported at +0.7% so 1.9% for the year.

Since August inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest Consumer Price Index (CPI) inflation figure had risen to 2.3%, above the Monetary Policy Committee's (MPC) inflation target of 2% with forecasts expecting this to reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend.

- UK Monetary Policy:

At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks all of which suppressed the money market rates throughout 2016/17.

Appendix 3 shows the money market interest rates and the Public Works Loans Board (PWLb) borrowing rates for 2016/17.

3.3 Local Context

At 31/03/2017 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,280.5m.

At 31/03/2017, the Authority had £1,014.9m of borrowing including £226.0m of Private Finance Initiative (PFI) Debt and £27.0m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to maintaining a liquidity investment balance of around £30m.

The Authority has an increasing CFR over the next 3 years due to the capital programme, investments are expected to remain at around £30m and further new long term borrowing is expected to be required.

3.4 Borrowing

Total outstanding debt in 2016/17 increased by £98.5m to £788.9m as at 31 March 2017. The total long term debt increased by £3.7m while temporary borrowing had increased by £94.8m as at 31 March 2017. The average rate of interest on total debt decreased, from 3.791% at 31 March 2016 to 3.270% at 31 March 2017. Table 2 analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO				
	1 APR 2016		31 MAR 2017	
DEBT	£m	%	£m	%
PWLB borrowing	619.9	3.860	623.6	3.729
Market loans	49.0	4.348	49.0	4.348
Local bonds & Stock	0.6	3.001	0.6	3.001
Temporary borrowing	20.9	0.486	115.7	0.338
TOTAL DEBT	690.4	3.791	788.9	3.270

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy.

As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use temporary borrowing and internal resources to fund the majority of its capital expenditure in 2016/17.

The Authority funded £121.8m of its capital expenditure from borrowing. In total £20m of new fixed rate loans with an average rate of 2.25% for a period of 20 years were raised which includes the replacement of maturing loans. The PWLB was the Authority's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.

Temporary loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. £258.8m of such loans were borrowed at an average rate of 0.32% and an average life of 55 days this total includes the replacement of maturing loans. The Authority's balance of Temporary loans has increased by £94.8m in 2016/17 with the debt portfolio showing £115.7m outstanding as at 31 March 2017.

The initial costs of using internal resources and temporary borrowing to fund capital expenditure are around £0.240m lower per £10m borrowed short term at 0.3% vs 25 year PWLB debt at 2.7% (16/17 average); this balanced against the financial impact of for each 0.25% rise there is an extra £0.025m per annum in interest cost. An interest equalisation reserve has been set up to mitigate the risk of unexpected rises in long term interest rates with c.£12.3m ring-fenced to smooth the impact of increasing the proportion of fixed long term loans.

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

- *Lender Option Borrower Option (LOBOs)*

The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £14.000m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing

risk even though in the current interest rate environment lenders are unlikely to exercise their options.

In June Barclays Bank informed the Authority of its decision to cancel all the embedded options within standard LOBO loans. This effectively converts £15m of the Authority's Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date. This waiver has been done by 'deed poll'; it is irreversible and transferable by Barclays to any new lender.

- **Local Government Association Bond Agency**
The UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Authority has analysed the potential rewards and risks of borrowing from the MBA although is yet to approve and sign the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee
- **Debt Rescheduling:**
The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.
- **Housing Revenue Account (HRA) Borrowing**
From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing and not being replaced the HRA accumulates a variable rate internal borrowing position. During 2014/15 the HRA fixed £37.161m of internal borrowing on a maturity loan basis for 30 years with reference to the PWLB interest rate quoted on the day. No further HRA borrowing has taken place in 2016/17.

3.5 Investments

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

In the past 12 months, the Council's investment balance has ranged between £25m and £110m, but investment balances are expected to be maintained at a balance of around £30m in the forthcoming year. The strategy of reducing investment balances towards a liquidity management balance of around £30m has continued throughout 2016/17 and has seen the dual benefit of reducing the authority's exposure to bank credit risk and has allowed the budget to benefit from the net borrowing exposure to the lower interest rate environment.

The average sum formally invested during the year was £64.6m, earning total interest of £0.447m at an average rate of 0.691%. After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. The low short-term interest rates (see appendix 3), meant that the average return for

2016/17 was below the original budget estimate of 0.800%, however the amount of investment interest was higher than the original budget of £0.350m due to higher than anticipated cash balances at the beginning of the financial year.

The Council benchmarks its average return against the 7-day London Interbank (LIBID) rate provided by the Bank of England. For 2016/17, the average 7-day LIBID rate was 0.20%.

Table 3 - Movement in Investments	Balance on 31/03/2016 £m	Balance on 31/03/2017 £m
Short term Investments (call accounts, deposits)		
- Banks and Building Societies with ratings of A- or higher	25.0	5.0
- Local Authorities	10.0	10.0
Long term Investments		
- Local Authorities	-	-
Money Market/ Funds	35.4	12.0
Pooled Funds		
- 'Cash Plus' Funds	10.0	-
TOTAL INVESTMENTS *	80.4	27.0
Increase/ (Decrease) in Investments £m		(53.4)

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

Table 3 above shows the movement in investments by type during 2016/17. The council reduced its overall exposure to investment credit risk by reducing the balance of investments held. These internal resources were used for the short term financing of capital expenditure. The council has retained its use of instant access money market funds with the dual benefit of increased diversity and a credit rating of AAAm.

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

- Credit Risk
Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2016	4.26	AA-	3.48	AA
30/06/2016	3.83	AA-	3.52	AA-
30/09/2016	4.05	AA-	3.90	AA-
31/12/2016	4.38	AA-	3.87	AA-
31/03/2017	N/A	N/A	N/A	N/A

Scoring:

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

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

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

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

Note:- Scores at 31 March 17 not available due to change of Treasury Advisors

Appendix 2 provides details of the Council's external investments at 31 March 2017, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.

- Icelandic Krona (ISK) in Escrow

The administrators for the recovery of Glitnir Bank deposits (£11m) have made repayment to all priority creditors, including the City Council, in full settlement of the accepted claims. However, approximately 21% (£2.3m) of this sum has been paid in ISK and placed in an Escrow account awaiting final resolution of the currency controls.

The Central Bank of Iceland have recently issued a press release stating the currency restrictions in Iceland are to be removed. The Local Government Authority are currently working with the Central Bank to agree a method of repatriation of these funds plus accumulated interest back to the Local Authorities' UK bank accounts.

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

The accrued notional interest and changes in value due to exchange rate movements in respect of the Icelandic recoveries held in ISK escrow account produced a debit to the revenue account of £0.349m in 2016/17 which was neutralised by a transfer from the Treasury Management Reserve.

3.6 Counterparty update

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

At the end of November, the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies (Barclays, HSBC, Lloyds/Bank of Scotland, Santander UK, HSBC, RBS/Natwest and Nationwide BS). The 2016 stress tests were more challenging and designed under a new Bank of England framework, which tested the resilience of banks to tail risk events. Royal Bank of Scotland, Barclays and Standard Chartered Bank were found to be the weakest performers.

3.7 External advisors

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

The council has retendered the advisor contract in 2016/17, and has awarded a contract to Capita Asset Services starting from 1st April 2017.

3.8 Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2016/17 set on 7 March 2016 as part of the Council's Treasury Management Strategy Statement.

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

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

	2016/17 £m	2017/18 £m	2018/19 £m
Upper limit on fixed interest rate exposure	800	900	900
Actual	588		
Upper limit on variable interest rate exposure	250	300	300
Actual	171		

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

	Lower	Upper	Actual
Under 12 months	0%	25%	17%
12 months and within 24 months	0%	25%	4%
24 months and within 5 years	0%	25%	12%
5 years and within 10 years	0%	25%	16%
10 years and within 25 years	0%	50%	24%
25 years and within 40 years	0%	50%	21%
40 years and above	0%	25%	6%

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

	2016/17 £m	2017/18 £m	2018/19 £m
Limit on principal invested beyond year end	50	50	50
Actual	0		

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

	2016/17 (max to date £m)
Total Debt including PFI	1,014.9
Operational Boundary	1,041.2
Authorised Limit	1,081.2

Adoption of the CIPFA Treasury Management Code:

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

In compliance with the requirements of the CIPFA Code of Practice this report provides a summary of the treasury management activity during 2016/17. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. **Appendix 1** shows the complete list of indicators including actual performance against these indicators for 2016/17 together with comparative figures for 2015/16.

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

management indicators, indicate whether the 2016/17 actual figures were within the set limits.

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

The Council also confirms that during 2016/17 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

3.9 General Fund Revenue Implications

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

The latest budget estimate in 2016/17 for treasury management costs was £71.588m. The total treasury management-related costs in 2016/17, comprising interest charges less receipts, plus provisions for repayment of debt, were £83.509m. Of this PFI related expenditure accounted for £31.326m which includes the NET lines 1 & 2. A proportion of the Council's debt relates to capital expenditure on council housing and £12.351m of these costs was charged to the HRA.

The remaining General Fund costs of £71.158m gave a favourable variance of £0.4m which is included within the treasury management section of the General Fund corporate budget outturn report on the 20 June 2017 Executive Board agenda.

The prime reason for the favourable variance is delaying of taking new long term debt and some slippage in the capital program which has resulted in a £0.4m saving across interest payable and a reduction in the repayment of debt referred to as minimum revenue provision (MRP). These savings are one-off in nature as the proposed capital program expenditure materialises and the interest payable increases as new long term financing is secured in the coming year.

3.10 Treasury Management Reserve

The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year. The balance on the Reserve at 31 March 2017 is £2.955m.

A separate reserve for interest equalisation has been set up with a balance £12.337m specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated.

3.11 Value for Money

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

3.12 Risk Management

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

The key Strategic Risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The rating for this risk at 31 March 2017 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 1 April

2016. anagement of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

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

4.1 None

5 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

5.1 None

PRUDENTIAL INDICATORS

Appendix 1

INDICATORS	2015/16 Actual	2016/17 Estimate	2016/17 Actual	Within Limits?
1) Prudence indicators				
i) Capital Expenditure				
General Fund	£201.2m	£194.7m	£178.2m	YES
HRA	£51.0m	£74.2m	£56.3m	YES
	£252.2m	£268.9m	£234.5m	
ii) CFR at 31 March				
General Fund	£678.8m	£810.9m	£774.2m	YES
HRA	£280.8m	£284.2m	£280.3m	YES
PFI notional 'debt'	£236.3m	£226.0m	£226.0m	N/A
	£1,195.9m	£1,321.1m	£1,280.5m	
iii) External Debt at 31 March				
Borrowing	£690.4m	£755.2m	£788.9m	YES
PFI & leasing notional 'debt'	£236.3m	£226.0m	£226.0m	N/A
Gross debt	£926.7m	£981.2m	£1,014.9m	
Less investments	£(82.7)m	£(50.0)m	£(29.3)m	N/A
Net Debt	£844.0m	£931.2m	£985.6m	
2) Affordability indicators				
i) Financing costs ratio				
General Fund	13.44%	14.61%	12.80%	YES
General Fund (Inc PFI costs)	20.28%		20.28%	YES
HRA	11.33%	12.02%	12.00%	YES
	£s	£s	£s	
Council Tax Band D (per annum)	1.30	16.38	1.33	YES
HRA rent (per week)	-	0.05	-	YES
	Max in year		Max in year	
iii) Authorised limit for external debt	£926.7m	£1081.2m	£1,014.9m	YES
iv) Operational limit for ext. debt	£926.7m	£1041.2m	£1,014.9m	YES
3) Treasury Management indicators	£m	£m	£m	
ii) Limit on variable interest rates	22.0	250.0	171.4	YES
iii) Limit on fixed interest rates	586.6	800.0	588.2	YES
iv) Fixed Debt maturity structure				
- Under 12 months	2.68%	0-25%	16.78%	YES
- 12 months to 2 years	2.25%	0-25%	4.47%	YES
- 2 to 5 years	15.01%	0-25%	12.28%	YES
- 5 to 10 years	17.79%	0-25%	16.38%	YES
- 10 to 25 years	31.84%	0-50%	23.56%	YES
- 25 to 40 years	21.16%	0-50%	20.93%	YES
- 40 years and above	9.27%	0-25%	5.60%	YES
	Max in year		Max in year	
v) Max sum invested for >364 days	£0m	£50.0m	£0m	YES

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

1) Prudence Indicators

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

2) Affordability Indicators

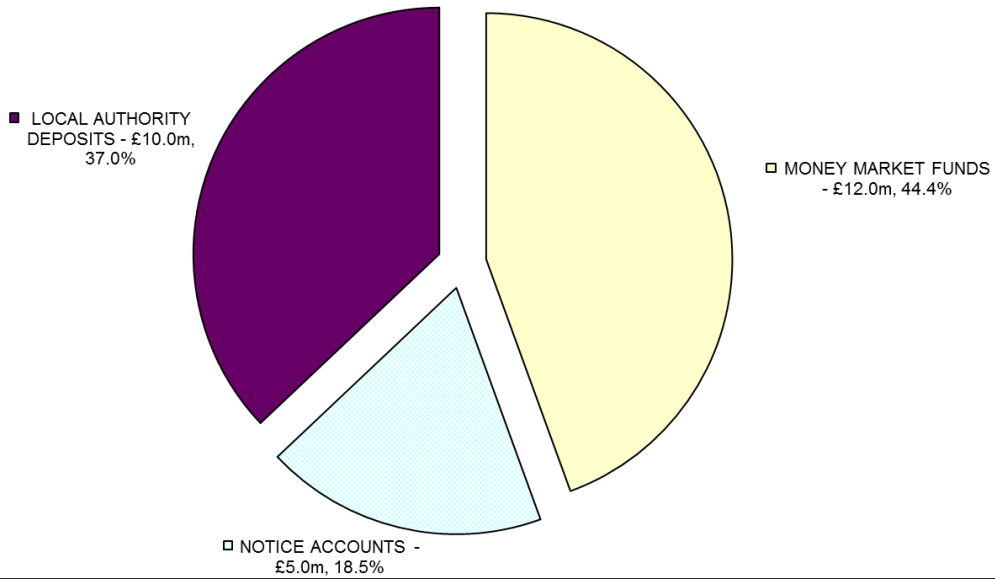
- i) *'Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income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

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

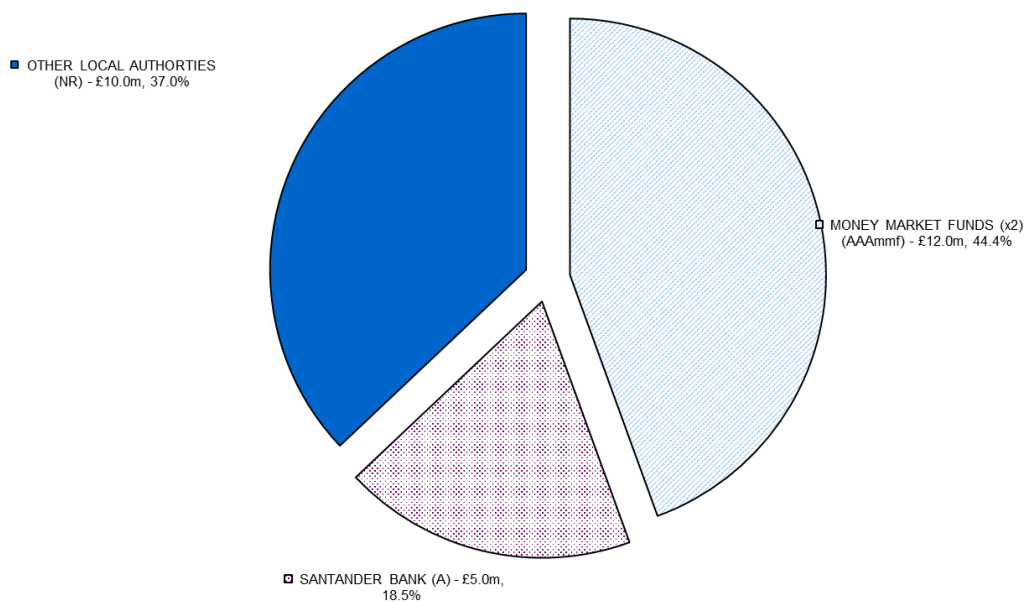
3) **Treasury Management Indicators**

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

Type of Investments as at 31 March 2017

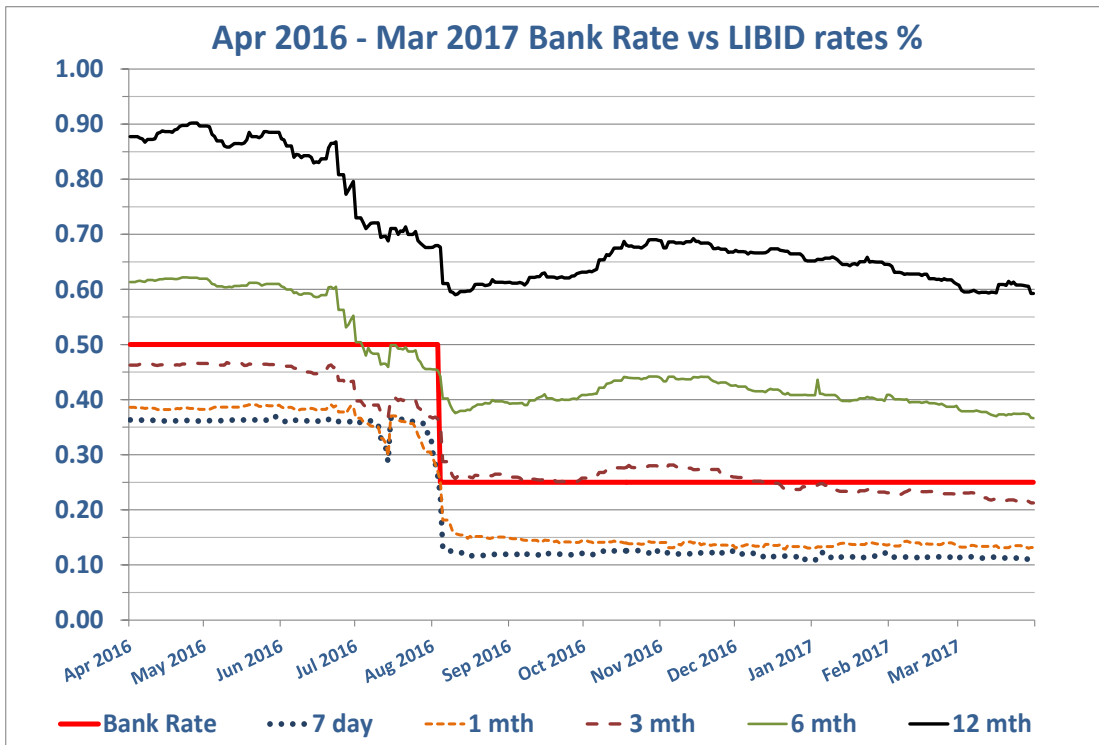


Investment and Fitch credit long-term rating as at 31 March 2017



Investment Rates in 2016/17

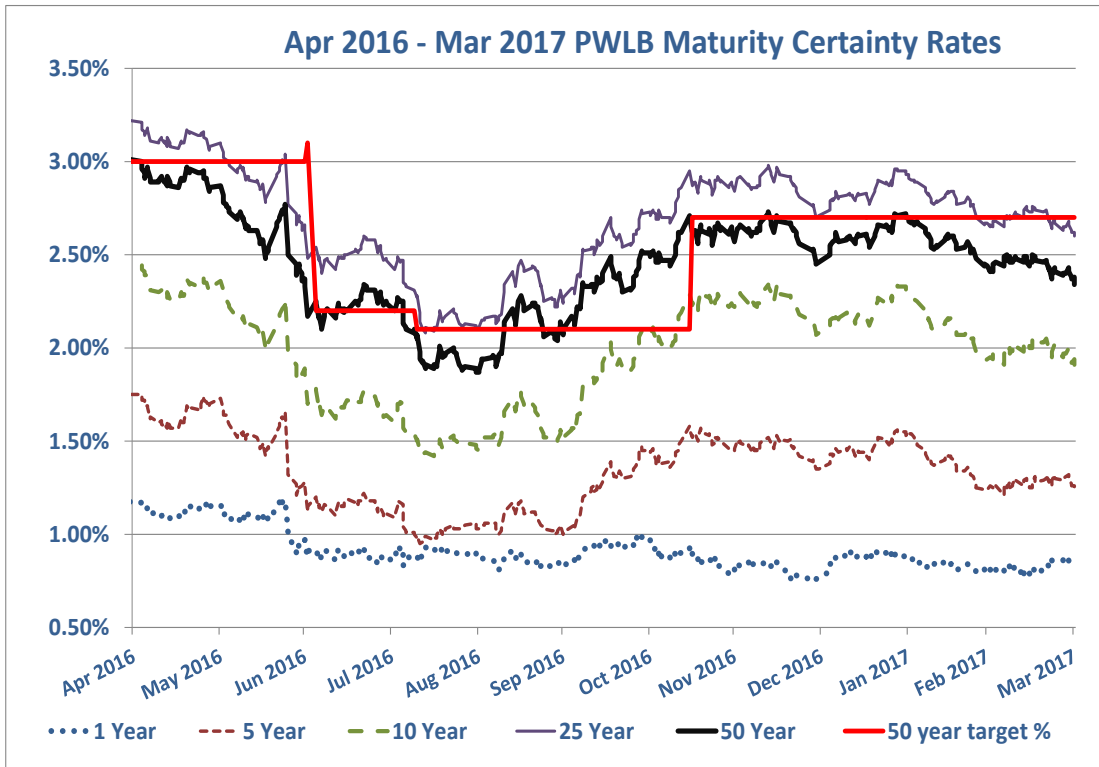
After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



Borrowing Rates in 2016/17

PWLB certainty maturity borrowing rates

During 2016-17, PWLB rates fell from April to June and then gaining fresh downward impetus after the referendum and Bank Rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March. The graphs and table for PWLB rates below show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%



Audit Committee Progress Report

External Audit

Nottingham City Council

July 2017

Contents

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

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

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

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

 High impact  Medium impact  Low impact  For information

External audit progress report

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

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

Area of responsibility	Commentary
Financial statements and Value for Money	<p>Since the last Audit Committee in April we have;</p> <ul style="list-style-type: none"> — commenced our final accounts audit visit on 12 June 2017. We have prioritised key areas of audit focus such as land and building valuations, payroll costs, and the Authority’s pension’s valuation. The Authority provided us with a complete draft set of accounts and supporting working papers inline with agreed timescales, which has helped the audit progress as planned. We will communicate to the Committee our key findings in September via our ISA 260 report. — as part of our Value for Money work we are required to update our assessment throughout the year. Should any new issues present themselves then we are required to report against these in our ISA260 report. This will summarise any specific matters arising, and the basis for our overall conclusion. As part of final accounts work we have identified a potential new Value For Money risk to our audit in regards to the Authority’s wider Group structure, which is requiring us to undertake additional audit procedures. We will provide a verbal update to committee on this matter.
Certification of claims and returns	<p>We have;</p> <ul style="list-style-type: none"> — commenced our housing benefits audit work. We have provided the authority with our initial testing samples. On the back of last year’s audit there is a significant amount of testing required to understand if errors identified in 2015/16 are still prevalent within the 2016/17 claim. We hope that commencing the testing earlier than in prior years will allow us to complete the audit testing in line with required timescales, but wish to highlight to the Committee that there is significantly more work for both officers and ourselves to perform this year.

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Technical developments

Highways Network Assets

Level of impact: ● (Medium)	KPMG perspective
<p>On Wednesday 8 March 2017, the CIPFA/LASAAC Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. This follows its decision in December 2016 to delay the implementation until at least the 2017/18 financial year.</p> <p>The Board took the decision not to proceed because the benefits are outweighed by the costs of implementation for local authorities. Another factor was the absence of central support for key elements of the valuation.</p> <p>The update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the accounting code) has also been issued which confirms the removal of the requirement for 2016/17.</p> <p>Further information can be found on the CIPFA website at www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/ifrsbased-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-the-code</p>	<p><i>The Committee should familiarise themselves with the key changes.</i></p>

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100% Business Rates Retention - Department for Communities and Local Government (DCLG) consultation & update post-election

Level of impact: ● (Medium)	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has launched a further consultation on its proposals for 100% retention of business rates by the local government sector. This consultation is part of DCLG's ongoing process of engagement and collaboration on the design of reforms. It seeks views on some of the detailed aspects of the design of the reformed system, including:</p> <ul style="list-style-type: none">— the operation of partial resets;— how to measure growth over a reset period;— plans for business rate pooling and local growth zones;— how to best move to a centrally managed appeals risk system;— the approach to tier splits;— the operation of a future safety net; and— proposals for the central list. <p>The consultation closed on Wednesday 3 May 2017. Details are available on the web-site at www.gov.uk/government/consultations/100-business-rates-retention-further-consultation-on-the-design-of-the-reformed-system</p> <p>POST ELECTION UPDATE</p> <p>Post the election, there is now uncertainty about the way forward on business rates. We understand that a steering group which spent the last 15 months consulting on how 100% business rates retention would work has been disbanded after the exclusion of local government finance legislation in the recent Queen's Speech.</p>	<p><i>The Committee should discuss with officers the potential impact of the proposals on the Council and the actions that may need to be taken to address the challenges presented. This now includes the post-election uncertainty .</i></p>

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NAO Report - Planning for 100% local retention of business rates

Level of impact: ● (For Information)

The NAO has recently published a report on *Planning for 100% local retention of business rates*. The report finds that the Department for Communities and Local Government (DCLG) has made good progress in designing the scheme for 100% retention of business rates by local authorities, but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives.

DCLG's core objectives for the scheme, due to start in 2019/20, are to drive local economic growth, and to promote financial self-sufficiency for English local government. The NAO report, however, raises questions as to whether DCLG's current planning approach is best configured to deliver a scheme capable of meeting those objectives fully.

By allowing local authorities to retain 100% of business rates, DCLG hopes that this will incentivise them to grow their tax bases by adopting pro-development planning practices which in turn will support economic growth. But tax base growth does not necessarily mean economic growth: new developments might lead to the relocation of existing economic activities rather than the creation of new ones, for instance. The report finds that these issues have not been fully examined in DCLG's work to date. Crucially, DCLG has not looked in detail at whether the current scheme, in which authorities retain 50% of business rates, has promoted pro-growth behaviour in authorities.

DCLG is promoting financial self-sufficiency in the sector through the 100% local retention scheme in the context of a long-term reduction in local authority funding. DCLG is reviewing the relative distribution of funding in the sector through a Fair Funding Review, but there is not scheduled to be a Spending Review in which the absolute level of funding in the sector is reviewed, until after the 100% scheme is operational. In this context, the report highlights the risk of implementing a 100% local rates retention scheme that might be technically sound but lacks sufficient funding for the sector to deliver its statutory functions.

The report recognises that DCLG is managing a complex project, involving extensive sector engagement, and made good progress. The NAO, however, found clear risks to the timely delivery of the 100% scheme. Many significant and challenging issues remain outstanding, such as delivering the Fair Funding Review. Some slippage on meeting milestones to date, constraints on DCLG's resources, and DCLG's intention to concentrate important decisions in a short space of time towards the end of the timetable create the potential for pressure in the late stages of the project. The NAO highlights the risk that the pressure to deliver by 2019/20 could result in a scheme that has not been fully tested. The report also stresses the need for DCLG to assure itself that the scheme will deliver its core policy objectives and that these are not overlooked among the technical challenges of designing the scheme to a tight timetable.

A copy of the report can be found on the NAO website at www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates

NAO Report - Housing in England: overview

Level of impact: ● (For Information)

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape. The report notes that in recent years grown faster than its supply.

Total estimated government spending on housing in England was approximately £28 billion in 2015/16. The most significant element of this is housing benefit. In 2015/16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need, and this is particularly acute in London. It notes that DCLG is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market.

The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010/11.

Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.

The report is available from the NAO website at www.nao.org.uk/report/housing-in-england-overview

Technical developments

Comptroller and Auditor General (C&AG) keynote speech: 'The implications of central decision-making on the delivery of frontline services'

Level of impact: ● (For Information)

The Comptroller and Auditor General (C&AG), Sir Amyas Morse, recently gave a keynote speech on *The implications of central decision-making on the delivery of frontline services* at the Strand Group, the Policy Institute at King's College London's signature seminar series.

Drawing on his unique perspective looking across the whole of the public sector, the C&AG explored some of the elements of strategic financial management and planning that influence the success of major reform programmes in connected systems.

The speech examined how central government introduces reforms to locally delivered services to achieve its policy objectives, and the effect of its approach on funding, budgeting and efficiency.

Using the examples of local government, adult social care, and the NHS in England, the C&AG argued that the focus of local public services has shifted from providing 'more for less' to providing 'less for less', and that the lack of joined-up decision-making and funding arrangements between connected systems can often lead to consequences such as:

- unforeseen conflicting objectives for local bodies;
- cost shunting between parts of connected systems; and ultimately; and
- risks of financial, or service, failure locally.

The C&AG explained how year-on-year funding reductions can impact on the accessibility and quality of the services provided, not only for the local government sector, but across the health and social care system more widely.

The C&AG concluded that central government can do more to understand how assumptions about the efficiencies that may be available are likely to affect their objectives across public services, to help them promptly manage major risks. He urged those in the centre to do more to look outside of their 'silos' to understand the complexity and interconnectedness of the environment they are seeking to reform.

Finally, he encouraged central government to work more closely with local bodies to ensure that funding and decision-making arrangements drive not only economy and efficiency, but also effectiveness.

The full transcript of the speech is available on the NAO website at www.nao.org.uk/wp-content/uploads/2017/02/CAG-speech-Kings-College-London-070217.pdf

Technical developments

Public Sector Audit Appointments - Updated terms of appointment and statement of responsibilities published

Level of impact: ● (For Information)

On 23 February 2017, Public Sector Audit Appointments Ltd (PSAA), issued the revised document *Terms of Appointment: Principal Local Authorities and Police Bodies*. There are minimal changes the document issued in September 2015 the re-write is intended to clarify or simplify the arrangements within the document.

PSAA has also issued an updated *Statement of Responsibilities of audited and audited bodes Principal Local Authorities and Police Bodies* applicable for 2017/18. The Statement explains where the differing responsibilities of auditors and of audited bodies begin and end, and sets out what auditors should expect of the audited bodies in certain areas. The Statement is consistent with those issued previously, but removes references to local NHS bodies and smaller authorities.

Both documents are available on the PSAA's website at www.psa.co.uk/appointing-auditors/terms-of-appointment/



Appendix

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2017	Complete
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2017	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2017	TBC



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AUDIT COMMITTEE – 14 July 2017

Title of paper:	AUDIT COMMITTEE ANNUAL REPORT 2016/2017	
Director(s)/ Corporate Director(s):	Councillor Sarah Piper Chair of the Audit Committee	Wards affected: All
Report author(s) and contact details:	Councillor Sarah Piper Chair of the Audit Committee Email: sarah.piper@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note the work undertaken and approve the report at Appendix 1.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 This report outlines the work undertaken by the Audit Committee in 2016/2017 and explains how the Committee has filled its designated role within the Constitution and how this work relates to its core responsibilities.

2 BACKGROUND

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

2.5 In order to demonstrate the effectiveness of the Committee and develop public trust, the Chair has produced this annual report in respect of its activities. It aims to develop the Council's commitment to improving corporate governance.

2.6 The report at **Appendix 1** summarises the work undertaken by the Committee during 2016/2017, shows the topics it discussed and uses its Terms of Reference to demonstrate how it met its objectives and responsibilities. The report recognises the positive contributions of councillors and colleagues in the deliberations of the Committee and the positive effect the Committee has had on the Council's governance arrangements. The report categorises the work under the broad themes below.

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

It also comments on Committee

- Independence
- Training and Development

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

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

3.1 None.

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2015
- CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013
- CIPFA Delivering Good Governance In Local Government – Guidance Notes for English Authorities 2016 Edition

Appendix 1

Audit Committee Annual Report 2016/2017

Foreword by the Chair

In this annual report, I would again like to express my gratitude for the help I have received from committee members and to thank them all for their hard work and diligence. I also appreciate the support provided to the Committee throughout the year by Head of Audit and Risk with advice and training. Thirdly, I would like to thank Council colleagues and external providers of assurance, who have attended our meetings and answered our questions. Those attending the committee can confirm that the Audit Committee provides challenge in terms of both the assurance work reported on and the response of the management, since detailed questioning and responses are necessary for the Committee to assure itself of the Council's governance arrangements.

The following report summarises the work performed over the year 2016/2017 and describes how the Committee has contributed to the effectiveness of the Council by the work it has done including:

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

The Purpose of Audit Committees

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

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

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

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

Terms of Reference

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

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

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

- Consider the reports of external audit and inspection agencies;
- Support the Committee in reviewing the financial statements, external auditor's opinion and reports to Councillors, and monitor management action in response to the issues raised by external audit;
- Support the Committee in reviewing the Council's integrated planning and performance framework;
- Support consideration of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors;
- Lead the Committee to be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- Lead approval (but not direct) Internal Audit's strategy, plan and monitor performance.
- Support Internal Audit and contribute to Peer Review

- Support the review of the summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted; and
- Lead the Audit Committee in procuring external audit if required.

Committee Aims

In summary, the Committee's role is to challenge, assess and gather assurance from within the Council and from external agencies, on the level and quality of the internal control and risk management processes in place to ensure that Council objectives are met. As part of this role it approves Audit Plans, the Statement of Accounts, and Annual Governance Statement and monitors the robustness of performance management systems. The benefits gained from operating an effective committee are that it:

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

Membership

The Audit Committee is made up of 9 non-executive councillors appointed to reflect the political balance of the Council and 1 independent member. The members of the Committee for 2016/2017 were:

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

Work Undertaken

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

the period. **Appendix B** cross-references the essential elements of the annual work programme to the Committee's terms of reference.

Assurance Statements and Governance

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

Annual Governance Statement (AGS)

Rationale

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

The Accounts and Audit Regulations 2015 require the publication of an AGS following an (at least) annual review of the effectiveness of the Council's internal control. In order to produce the AGS an annual timetable is required to ensure key tasks are undertaken to deliver the Statement alongside the Council's Statement of Accounts (SOA). The Committee has delegated authority for the formal approval of the AGS,

The 2016 CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" provides the principles by which good governance should be measured. This has been adopted as the Council's Local Code of Corporate Governance by the Audit Committee.

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

Summary of work

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

The 2015/16 AGS was signed by the Leader of the Council and the Chief Executive, was approved by the Committee at its September meeting and was published alongside the SOA. The Committee approved the AGS 2015/16, which identified the Medium Term Financial Plan, Brexit, Robin Hood Energy and Enviroenergy as new significant items of concern, and removed Icelandic Bank Deposits and Housing Revenue Account Stock Revaluation. The Committee periodically received reports on the progress made in addressing the issues reported in the 2015/16 Statement, and the process and timetable for compiling the 2016/17 statement. In summary the Committee was assured that progress was being made across the areas reported.

Partnership Governance Arrangements

Rationale

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

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

Summary of work

The Committee noted that no partnerships were added to the Register of Significant Partnerships in 2016. One partnership, the Greater Nottingham Transport Partnership, was removed as the partnership has ceased to operate. In 2016/17 the health checks found that the majority of partnerships scored either good or excellent in all areas. The committee noted the findings of the health checks and made a recommendation to support partnership compliance.

Midlands Engine/Midlands Connect were to be included on the Register of Significant Partnerships in 2017.

“With the potential changes which may occur as a result of devolution, the Metro Strategy, the Midlands Engine and Brexit, combined with the funding challenges facing local authorities, it is likely the partnership landscape will change significantly over the next few years.” – Report to Audit Committee 25Nov2016

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

Information Technology (IT)

Rationale

The City Council is reliant on the various forms of IT to perform its everyday business, whether this is collecting income, recording financial transactions, producing committee reports or keeping case notes of vulnerable citizens in order that they receive the appropriate level of care. Consequently, the City Council must have an appropriate infrastructure to

provide the appropriate service and to maintain controls that ensure that citizen and colleague data is properly protected at all times.

Summary of work

Following previous focus by the Committee on IT, the IT service has been externally re-assessed during 2016/17 and the results of this assessment and subsequent developments are due to be brought back to the Committee for consideration later this year.

Risk Management

Rationale

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

Summary of Work

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

Treasury Management

Rationale

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

The Council's treasury management function operates in accordance with the CIPFA Treasury Management Code of Practice (the TM Code) and Prudential Code. The TM Code requires authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity.

Under this code the annual Treasury Management Strategy, including the Investment Strategy, is considered and approved by a meeting of Full Council before the beginning of the financial year to which it applies.

In undertaking this function, the Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices, and to deliver this in advance of the associated strategies being formally approved by Council. This provides an opportunity for detailed scrutiny and analysis of the Treasury Management Strategy and Investment Strategy by those charged with governance.

Summary of Work

The Committee scrutinised and gained assurance from the regular reports it received in the period regarding City Council's Treasury Management Strategy and performance reports including the Treasury Management Annual Report. The Committee reviewed the 2015/16 Treasury Management Annual Report and noted Issues including:-

- Treasury Management actions taken in 2015/16 and 2016/17
- Noting the 2017/18 Treasury Management Strategy, particularly the:-
 - strategy for debt repayment (Minimum Revenue Provision) in 2017/18;
 - investment and borrowing strategies for 2017/18;
 - prudential indicators and limits for 2015/16 to 2019/20;
 - current Treasury Management Policy Statement

Performance Management

Rationale

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

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

Summary of Work

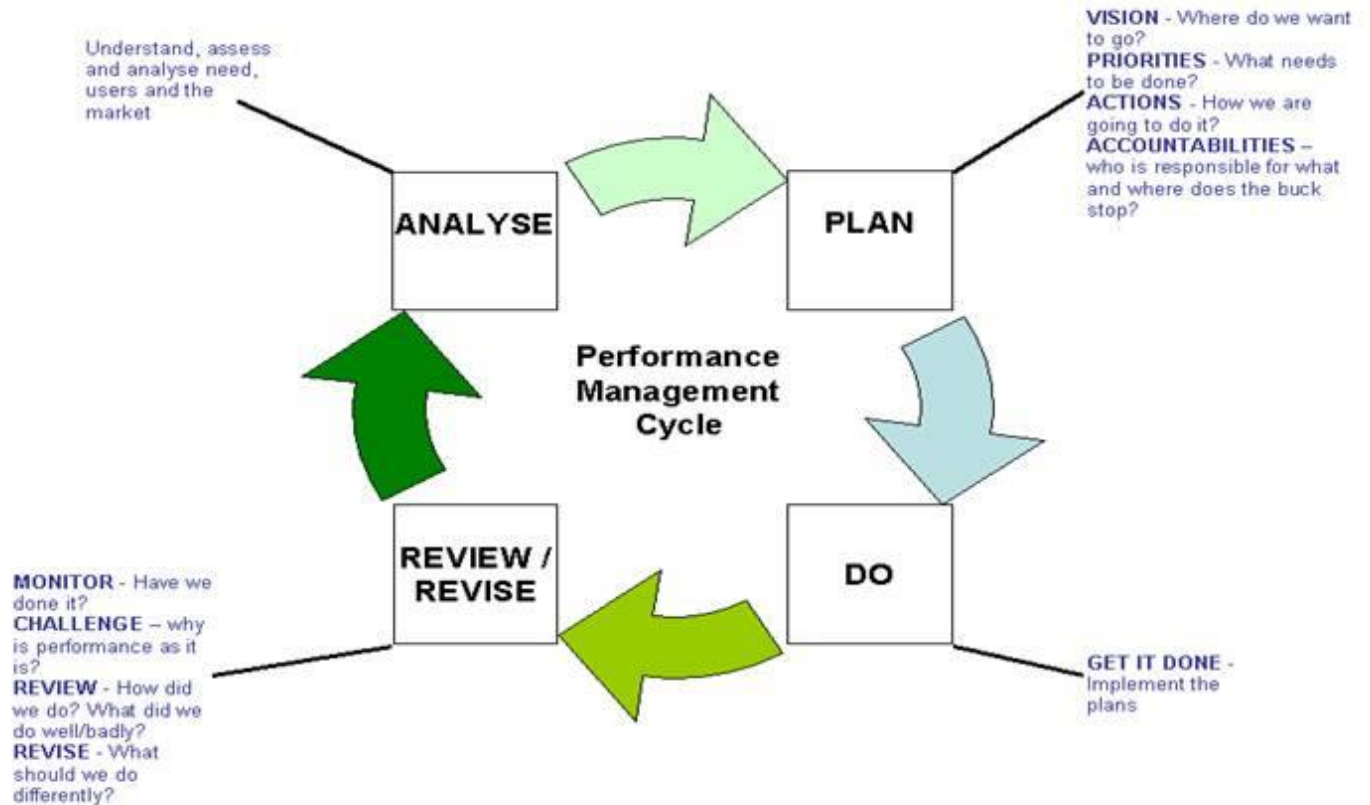
The Committee noted the progress made since the Corporate Performance Management Framework (PMF) was adopted in April 2014, which in 2016/17 included

- integration of performance management training into leadership programmes
- a revised business planning template
- improved sequencing of departmental performance boards with Corporate Leadership Team's performance meetings
- improvements to reporting of performance to Executive
- Challenge arrangements including Peer Challenge

The Committee also heard an outline of areas for focus in developing performance management and the PMF.

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

PMF



External Audit, Inspection and Assurance

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

External Audit

Rationale

The Committee has a duty to scrutinise the Council's financial and non-financial performance, to the extent that it affects the Council's exposure to risk and the control environment, and to oversee the financial reporting process. It also has the responsibility to approve the Council's Statement of Accounts (SOA) and to consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

External audit gives an independent view of the stewardship and accountability roles of the Council. The duties and powers of the external auditor are set out in statute and in the Audit Commission's statutory code of practice.

Summary of work

Throughout the year the Committee received reports from the Council's external auditors, detailing their work plans and the progress they had made. The audit plan followed the approach of previous years and key audit risks were discussed.

"In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2016 and of the Authority's and the Group's expenditure and income for the year then ended;*
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16."* – KPMG LLP

This has allowed the Committee to obtain an independent assurance in respect of the overall governance arrangements set in place by the Council, including assurance that NCC grant related processes and outcomes were similar to other local authorities and that their recommendations were addressed appropriately. The Committee has also considered arrangements for procuring external audit.

“On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Nottingham City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.” – KPMG LLP

Local Government Ombudsman – Annual Review

Rationale

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

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

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

Summary of work

The letter from the Ombudsman was noted in particular that of the 112 complaints reviewed by the Ombudsman, 13 had been upheld, which was an increase on the previous year but a comparable percentage to other core cities. Overall, the Council's figures reflect the national trend for the main subjects of complaint, which are Adult Care, Benefits and Tax and School Admission / Appeal services. A clear theme within the upheld complaints is Communication and Administration, for example, where the complaint is a result of a communication breakdown within a department or between services. A number of upheld complaints identified failings within the Council's complaint process. There is now a new complaints process in use by the council.

Ombudsman reviewed 112 complaints, 13 were upheld

Comparable percentage upheld and subjects to other core cities

New complaints process in use by the council

Internal Audit and Counter Fraud

Rationale

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

Assurance and Improvement Plan (QAIP) help the Committee assess the performance and effectiveness of the service.

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

Summary of work

The service affects the achievement of corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes and is an important part of the Council's governance and control framework. The Audit Committee agreed

- the approach taken for external assessment of Internal Audit
- the Internal Audit Charter.
- the Internal Audit Annual Workplan
- performance updates. IA continue to coordinate Counterfraud activities in line with the Counterfraud Strategy as reported in IA quarterly and annual reports. Counterfraud activities have made significant contributions in 2016-17 by exceeding savings and income targets

and received

- the Internal Audit Annual Report containing reasonable assurance from the HoIA that the internal control system was operating effectively within the Council and its associated partners. The HoIA's annual opinion regarding East Midlands Shared Services was noted as part of the Committee's deliberations regarding the organisation's annual report
- selected reports for further scrutiny

Financial Reporting

Statement of Accounts (SOA)

Rationale

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

Summary of Work

The Committee reviewed and agreed the accounting policies on which the annual accounts were prepared and noted the response of the Chair to the external auditors' questions to those charged with governance. The 2015/16 SOA and Annual Governance Report were received by the Committee. The Committee noted the issues identified in the associated Annual Audit Letter

Role of the Audit Committee and Annual Work Programme

Rationale

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

Summary of work

The Committee has periodically considered and endorsed reports detailing its work programme. This work aims to improve the Committee's efficiency and effectiveness and ensure it addresses its terms of reference as approved by the City Council. Coverage as contained in the programme is essential for the Committee to gain assurance regarding governance on behalf of the Council. In order to demonstrate the effectiveness of the Committee and develop public trust, the Chair produces an annual report in respect of its activities. The last annual report outlined the work undertaken by the Committee and how that related to its core responsibilities to demonstrate how the committee had fulfilled its designated role and contributed to the Council's governance framework.

Looking Forward

The Audit Committee will amongst other activities

- select further individual risks from the Corporate Risk Register for scrutiny.
- review and approve the revised version of the Performance Management Framework.
- review the results of the IT external assessment
- receive an update on the technical consultation on Business Rates

Independence

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

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

Training & Development

Members of the committee attended a training session in June 2016 run by KPMG on Audit Committee Effectiveness. At this event the Committee members considered the Committee's strengths and areas for development. The main area identified for development was in clarifying the context and requirements for Heads of Service when the Committee invites them to attend a meeting.

Training sessions on the Statement of Accounts took place in July and September 2016. Further refresher training will take place prior to members' consideration of the 2016/17 Statement of Accounts.

Conclusion

Having considered the available guidance, the terms of reference and duties of the Audit Committee, and the work undertaken over the period since my last annual report, it is my assessment is that the Committee has carried out its roles effectively during 2016/17.

Appendix A

The Committee's Terms of Reference 2016/2017

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

TABLE 2: DUTIES OF THE BOARD (AUDIT COMMITTEE) MANDATED BY PSIAS		
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
2020 & 2030	Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters	Comply
2060	Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.	Comply

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

Appendix B

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

Topics *	Cross reference to Appendix A TOR	Cross reference to Appendix A Function
Audit Committee Training	1 - 6	1- 11
Review of Accounting Policies	3,4	2
Internal Audit Annual Work Plan	1	4
Annual Governance Statement and Updates	2,4	3,6
Statement of Accounts	4	2
Internal Audit Annual Report	1	4
Internal Audit Charter	1	4
Annual Audit Letter	3,4	6
Ombudsman Annual Letter	2	10
Partnership Governance Health Checks and Update to Register Of Significant Partnerships	1	11
Strategic Risk Management Updates, Framework, Corporate Risk register and Corporate Risk Scrutiny	1	1
Counter Fraud Strategy	6	8
External Audit Plan, Progress, Technical Updates, and Reports	5	6,9
Arrangements for Appointment of External Audit	5	9
Performance Management Framework	2	7
Treasury Management Strategy, Annual Report, and Half Yearly Update	2	2,8
Internal Audits selected for examination	1	4
Reviews/ Updates :- Housing Benefits Risk Based Verification, Student Housing Strategy	2,6	9,10
EMSS Annual Report	2	11
Internal Audit Quarterly Reports	1	4
Audit Committee Terms of Reference and Annual Work Plan and Updates	1 - 6	1 - 11
Audit Committee Annual Report	1 - 6	1- 11
External Audit Questions To Those Charged With Governance	1, 3, 4	6

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AUDIT COMMITTEE - 14 July 2017

Title of paper:	<u>INTERNAL AUDIT ANNUAL REPORT 2016/17</u>	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Audit and Risk 0115 8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note the audit work completed during the year.	
2	Note the Head of Audit and Risk's Annual Opinion.	
3	Select up to two audits from Appendix 3 for examination at the November meeting and enquire and receive any assurance from the Head of Internal Audit regarding the limitation of scope and resources	

1 REASON FOR RECOMMENDATIONS

- 1.1 This report outlines the work of the Internal Audit (IA) service at the end of the fourth quarter 2016/17. The report includes the Head of Audit and Risk's (HoIA) annual opinion on the effectiveness of the internal control systems operating within the City Council and its significant partnerships.
- 1.2 The Accounts and Audit Regulations 2015 state that local authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) or guidance.
- 1.3 The Audit Committee's Terms of Reference include receiving an annual report on the work of IA.
- 1.4 The Public Sector Internal Audit Standards (PSIAS) require the responsibility for the management of Internal Audit to be set with the Board. In practical terms, this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City council.
- 1.5 The PSIAS require the HoIA to deliver an annual audit opinion and report that can be used to inform the Annual Governance Statement. The annual report should include a summary of the work supporting the opinion.

2 **BACKGROUND**

- 2.1 The IA service impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes and is an important part of the Council's governance and control framework.
- 2.2 The coverage set out in the 2016/17 Audit Plan has been substantially achieved and the associated Performance Indicator targets have been met.
- 2.3 The assurance gained from this activity, together with that gained from a review of other control and assurance mechanisms, has enabled the HoIA to give a reasonable assurance that the internal control systems are operating effectively within the Council and its significant partnerships.

3 **REVIEW OF THE YEAR**

3.1 **Reports to the Audit Committee**

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

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

4 ORGANISATIONAL INDEPENDENCE

- 4.1 The PSIAS require that the Head of Internal Audit must confirm to the Audit Committee at least annually, the organisational independence of internal audit activity. The Internal Audit Charter and the council's Financial Regulations re-inforce this requirement. The Internal Audit Charter has been revised as a consequence of the PSIAS external assessment and is submitted to this committee for approval.
- 4.2 The Charter specifies that the Head of Internal Audit must report to a level within the council that allows internal audit to fulfil its responsibilities. Appropriate reporting and management arrangements are in place within NCC that preserve the independence and objectivity of the Head of Internal Audit.
- 4.3 The reporting and management arrangements in place are appropriate to ensure the organisational independence of the internal audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. Nothing has occurred during the year that has impaired my personal independence or objectivity nor has there been any inappropriate scope or resource limitations.

5 SERVICE QUALITY AND COMPLIANCE WITH PSIAS

- 5.1 The service works to a charter endorsed by the Audit Committee. This charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards.
- 5.2 The Public Sector Internal Audit Standards (PSIAS) introduced a mandatory requirement for an external assessment of an organisation's internal audit function, which has to be completed once every five years by a qualified, independent reviewer from outside of the organisation. We completed a detailed self-assessment against the requirements of the standards, after which Birmingham City Council completed an external assessment in March 2017 and concluded that the section "mostly conforms to the requirements of the PSIAS."
- 5.3 The report produced by the team from Birmingham City Council was finalised with an agreed action plan. The recommendations from this report, along with improvements highlighted by our own self-assessment have been combined into an Improvement Plan. Copies of the Improvement Plan will be provided to members and will be available upon request. To date, good progress has been made in implementing the agreed improvements and we will continue to work on the outstanding issues throughout 2017.
- 5.4 The highlighted improvements include the need for an Assurance Framework to be developed by the Council and reported to the Audit Committee. We will report to this committee as this work progresses throughout the year.
- 5.5 It is a requirement of the PSIAS that the Chief Audit Executive (Head of Internal Audit) must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity (Appendix 1).

5.6 The service has met the requirements of the Accounts and Audit Regulations 2015 and associated regulations in respect of the provision of an IA service. The service has internal quality procedures and is ISO9001:2008 accredited.

6 INTERNAL AUDIT ACTIVITY

The following outlines the IA work completed in 2016/17.

6.1 Local Performance Indicators

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

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

6.2 Resources Used

Colleagues in post are professionally qualified and/or have extensive practical experience in the public sector. All colleagues participated in personal development reviews and most received at least three days training according to business needs. The predicted outturn after adjustments for 2016/17 is in accordance with the budget. The 2016/17 internal audit plan contained 1990 days and I am satisfied that there were adequate staffing resources available to me to deliver the plan.

6.3 Audit Plan

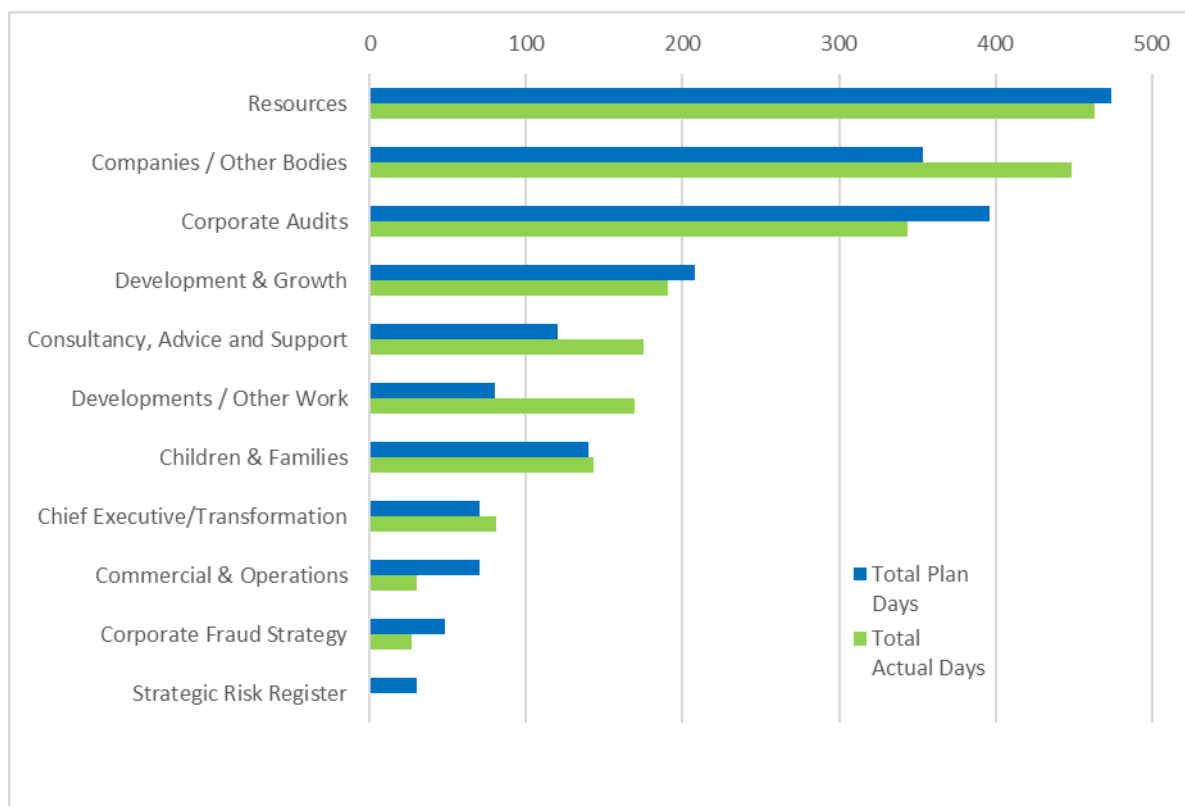
6.3.1 The Audit Plan and quarterly monitoring reports were presented to the Committee throughout the year, detailing progress against the Plan.

Table 3: Plan Outturn		
Total Planned Days	Actual End of Year	Comments
1990	2072	

6.3.2 The final outturn for 2016/17 is given in **Table 3** above and the audit coverage across departments and other service areas is shown in **Diagram 1** and **Appendix 4** gives a

summary of the outturn against planned resources .This diagram illustrates that there was no significant variation from plans endorsed by the Committee.

Diagram1 Internal Audit Plan against Actual 2016/17



6.3.3 Appendix 2 and Appendix 3 give details of the reports issued in the final quarter of the year. These appendices are the final reports in the quarterly IA performance monitoring cycle undertaken by the committee. They contain details of the recommendations made and levels of assurance given. Appendix 5 provides details of all final reports issued in 2016/17

6.3.4 Actual planned days have been sufficient to substantially complete the Audit Plan. Appendix 4 contains the summarised plan and outturn. In accordance with normal practice, the plan was flexed during the year and changes were reported to the Committee.

6.4 Recommendations analysis by risk

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

	2016/17		Jan- Mar	
	All	High	All	High
Total recommendations made	286	90	48	13
Rejected	7	1	0	0
Total recommendations accepted	279	89	48	13
Percentage accepted	98%	99%	100%	100%

6.5 Level of Assurance Given in Audit Reports

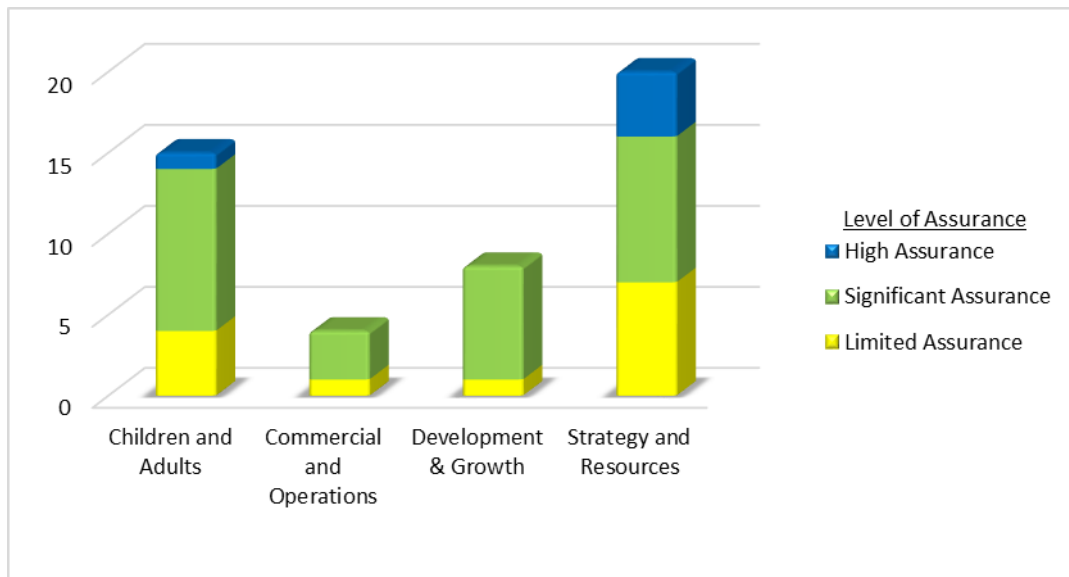
6.5.1 The committee sees a list of all audit reports, level of assurance and the associated high risk recommendations as part of its annual work programme. Below is a summary of the work reported in the year.

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

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

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

Diagram 2: IA assurances given by department 2016/17



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

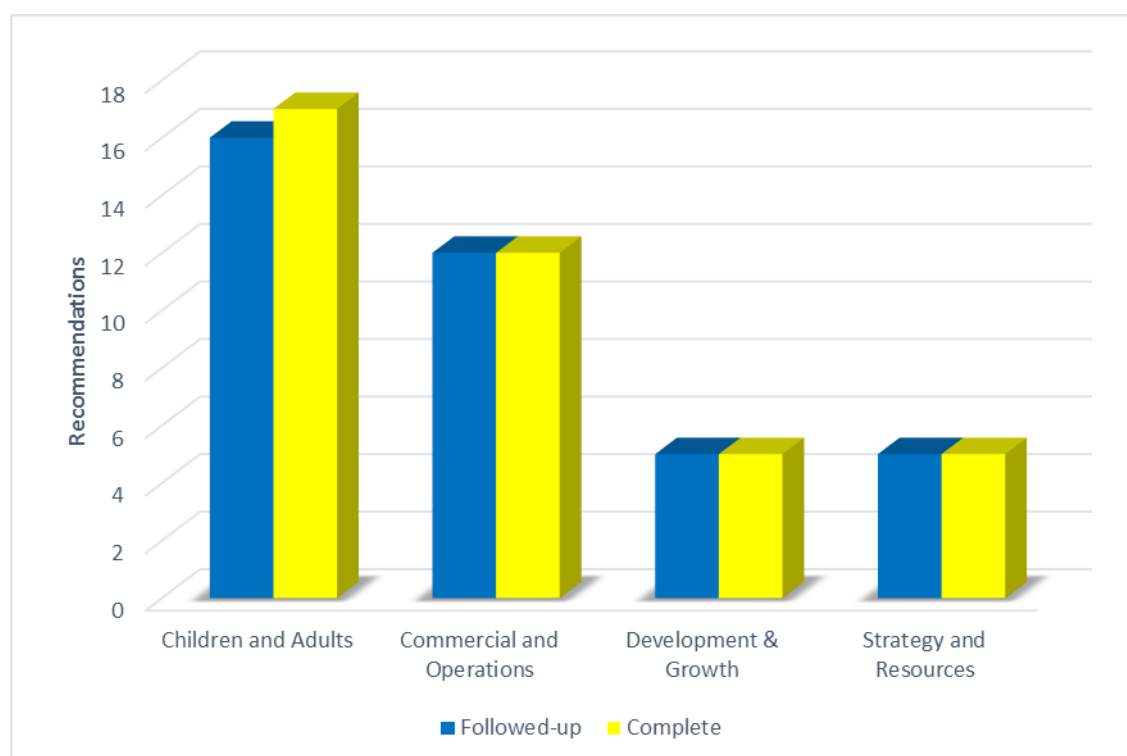
6.6 Recommendations made

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

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

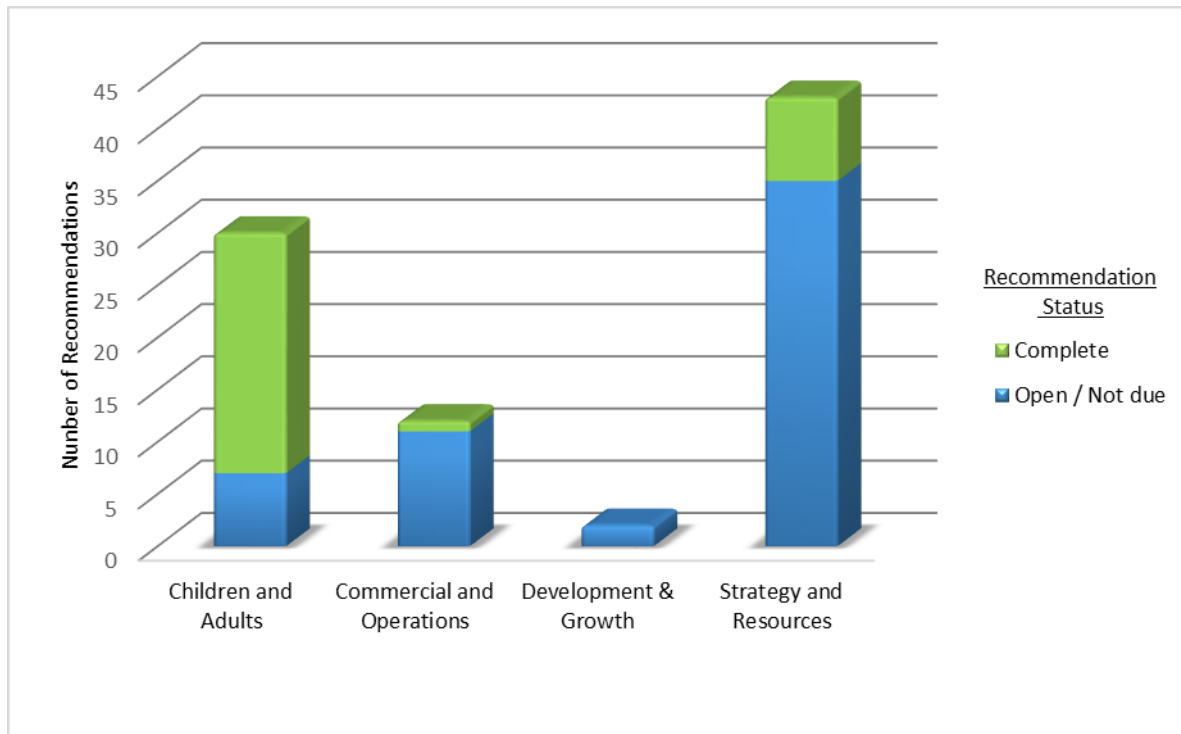
6.6.2 IA monitors the progress made by clients by undertaking follow up audits which assess the success in implementing the recommendations made. The position for the year, based upon the follow up audits completed, is summarised in Diagram 3.

Diagram 3: Results of Follow Up Audits



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

Diagram 4: Progress on High Risk Recommendations



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

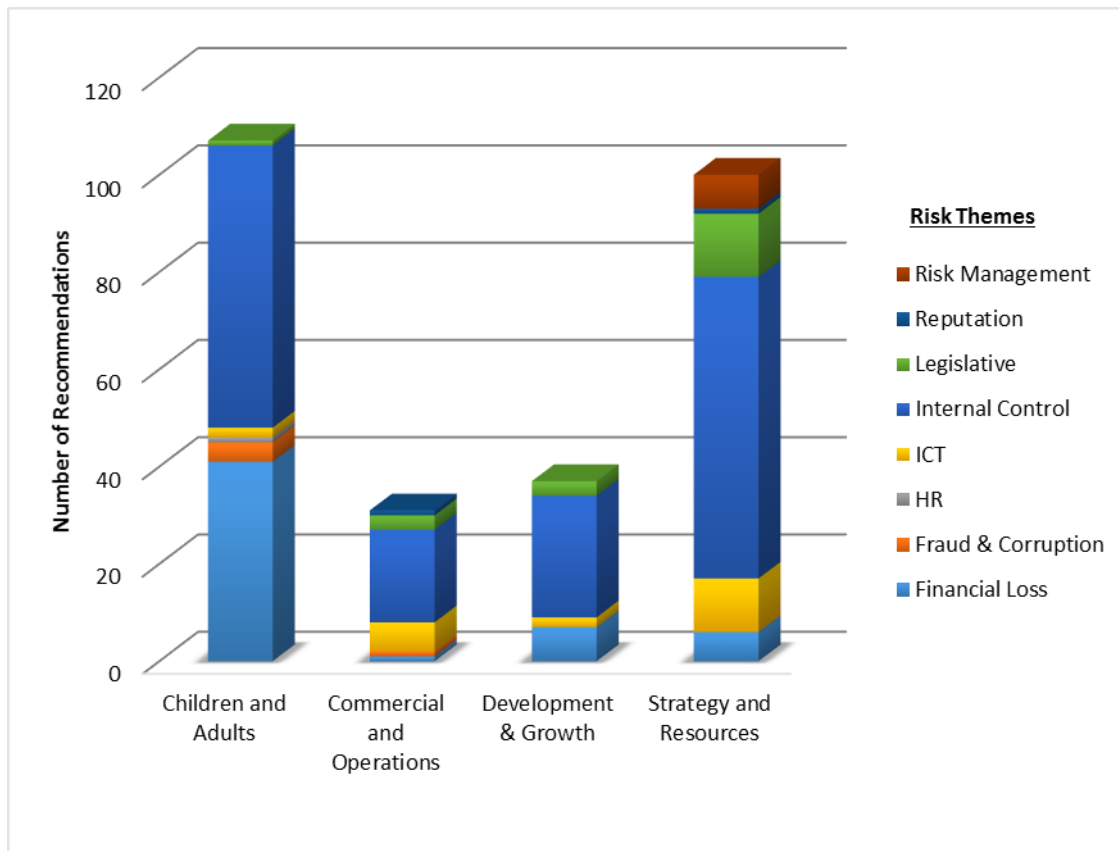
6.7 Risk Themes

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

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

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

Diagram 5: Risk Themes



6.8 Corporate Fraud Team

The Corporate Fraud Team is responsible for the investigation of irregularities and is also tasked with the proactive review of areas at risk of fraud / error with a view to identifying income and savings. The priority for 2016/17 was to identify £400,000 of cashable income; the final figure recorded as £687,000 plus savings of £502,000.

6.9 Head of Audit's Annual Opinion 2016/17

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

6.9.2 The IA service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee. The 2016/17 Audit Plan has been completed in accordance with the PSIAS and other professional standards applicable to the service. The IA service has undertaken reviews of the internal control procedures in respect of the key systems and processes of the Council and its partners, where appropriate. The service has operated within professional standards as PSIAS.

- 6.9.3 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.
- 6.9.4 Throughout 2016/17 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 2016/17 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
- 6.9.5 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 2016/17 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 2016/17 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.

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

None

8 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2015
- Audit Plan 2016/17
- CIPFA SOLACE Delivering Good Governance in Local Government
- Public Sector Internal Audit Standards 2013

List of Appendices

- Appendix 1** Quality Assurance and Improvement Programme (QAIP)
- Appendix 2** List of all reports issued during 1st January 2017 to 31 March 2017 with High Priority Recommendations
- Appendix 3** List of final Audit reports issued 1st January 2017 to 31 March 2017
- Appendix 4** Summary Internal Audit Plan / Outturn 2016/17
- Appendix 5** List of all final reports issued in 2016/17

NOTTINGHAM CITY COUNCIL – INTERNAL AUDIT

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

1 Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) came into force from 1st April 2013. The standards apply the Institute of Internal Auditors' (IIA) International Standards to the UK public sector.

1.2 Attribute standard 1300 - Quality Assurance and Improvement Programme (QAIP) states that: 'The Chief Audit Executive (CAE) must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.'

1.3 The use of this document will assist the CAE in establishing if the Internal Audit function conforms with the PSIAS.

1.4 In accordance with the PSIAS, the QAIP results should be reported at least annually.

1.5 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). The features to be considered for the QAIP are:
 - Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner which includes the maintenance and reporting of KPI's (1300). The CAE should encourage board oversight in the QAIP.
 - Assures compliance with the *Standards*, Definition of Internal Auditing and Code of Ethics (1300).
 - Helps the Internal Audit activity add value and improve organisational operations and identify opportunities for improvement (1300).
 - Includes both periodic internal assessments and ongoing monitoring for quality (1311).

- Includes an external assessment at least once every five years, the results of which are communicated to the Board (Audit Committee) including the elements required by the Standard (1312, 1320).
- The form and frequency of the assessment and qualification and independence of the assessor to be discussed by CAE with the board. (1312).

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

1.7 All members of the Internal Audit team have responsibility for maintaining quality. The activities outlined in this QAIP involve all members of the team.

2 Internal Assessment

2.1 Internal Assessment is made up of both on-going reviews and periodic reviews:

On-going quality assurance arrangements

2.2 NCC Internal Audit maintains appropriate on-going quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the PSIAS). These arrangements include:

Internal Audit Assignment Level

- The maintenance of a detailed audit procedures manual and quality management system to ensure compliance with applicable planning, fieldwork and reporting standards.
- The objectives, scope and expected timescales for each audit assignment subject to agreement with the client before detailed work commences;
- The results of all audit testing work documented using a standard approach in the manual;
- Documented review of file/working papers by an Audit Manager/Lead Auditor/IT Specialist and signed-off at each stage of the audit process using the standard approach in the manual, to ensure that:
 - All work undertaken complies with the requirements of professional best practice and appropriate audit techniques have been used;
 - Audit files are complete and properly structured;
 - The objectives of the audit have been achieved;
 - Appropriate levels of testing have been carried out;
 - The findings and conclusions are sound and are demonstrably supported by relevant, reliable and sufficient audit evidence
 - The final audit report is complete, accurate, objective, clear, concise, constructive and timely.

- Support and direction for audit engagements including regular 1:2:1 meetings to monitor progress;
- Audits with No Assurance are considered by the CAE with the team carrying out the assignment;
- Customer satisfaction questionnaires are issued with each final audit report to obtain feedback on the performance of the auditor and on how the audit was received.
- Post Audit Assessment forms completed after each audit assignment to evaluate performance against a competency framework identified in the training strategy including performance management and identify any training and development requirements as well as acknowledging any areas of excellent performance;
- Draft and Final reports and recommendations are reviewed and approved by the Audit Manager or Group Auditor and may be escalated to the CAE prior to issue.
- The results of the on-going quality assurance arrangements and periodic assessments will be reported in the regular update reports and annual report to the Audit Committee, which will include the results of customer satisfaction questionnaires.

Internal Audit Management Level

- The Internal Audit annual plan is produced using a risk based approach as documented in the Internal Audit annual plan methodology;
- The Internal Audit Charter provides stakeholders with a formally defined purpose, authority and responsibility of the Internal Audit activity as well as formalising the Code of Ethics for members of the Internal Audit team;
- Continuous development of the internal audit team to ensure it possesses the necessary capacity, skills and knowledge to successfully deliver the annual audit plan including:
 - Job descriptions and detailed competency profiles for each internal audit post;
 - Regular performance appraisals with individual development plans;
 - Training strategy and associated training activities with documented training records;
 - Active encouragement of Continuing Professional Development (CPD) within the section and procurement of appropriate training activities.
- All of the above will be agreed where appropriate with s151 officer and reported to Audit Committee.

Reporting to Audit Committee

2.3 On a regular basis (in accordance with the Committee's agreed work programme), Internal Audit provides the Audit Committee with an update report summarising the audit activity undertaken during the period. This includes the following:

- Progress against the annual plan in terms of audit days achieved;
- A list of reports issued during the period including details of the opinion provided
- A summary of the key issues and outcomes from the work undertaken in the period including findings from any reviews reported during the period with limited or no assurance
- Where appropriate, any management responses to risk that the CAE considers to be unacceptable to the organisation and the outcome of the CAE reporting this to senior management
- Customer satisfaction results from questionnaires received

Periodic Reviews

2.4 Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, Definition of Internal Auditing, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Periodic assessments are conducted through:

- Regular activity and performance reporting to the Audit Committee (through their agreed work programme) and Section 151 officer
- Annual self-review of conformance with the Public Sector Internal Audit Standards. This will be done using CIPFA's 'Checklist for assessing compliance with PSIAS and the Local Government Application Note' which was developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme.

Annual self-assessment reviews

2.5 On an annual basis, the CAE will update the Public Sector Internal Audit Standards (PSIAS) self-assessment checklist and obtain evidence throughout the year to demonstrate conformance with the standards, this will include a review of activity against the risk-based plan and achievement of objectives. The results of the self-assessment are reported to the senior management and the Audit Committee as part of the annual report of the CAE.

2.6 The results of the PSIAS self-assessment are used to identify opportunities for development and/or improvement. Any specific changes or improvements and progress against these are included in the annual Improvement Action Plan. Specific actions may also be included in individual personal development action plans.

3 External assessment

3.1 At least once every five years, internal audit working practices are subject to external assessment to ensure the continued application of professional standards. This process will appraise and express an opinion about internal audit's conformance with the Standards, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate.

3.2 The CAE will use professional judgement to assess the competence of potential assessors. The assessors should be independent, have no conflicts of interest with NCC, be suitably qualified and have relevant experience of professional practice of internal audit and the external assessment process.

3.3 The CAE will consider the different types of external assessment (i.e. full or self-assessment plus independent validation). The proposed form of external assessment will be discussed with the Audit Committee.

3.4 The scope of the assessment will be agreed with the sponsor (Strategic Director of Finance) and with the selected assessor / assessment team.

3.5 The results of the assessment will be initially reported to the CAE.

3.6 The results of external assessments will be reported to the Audit Committee and Section 151 Officer at the earliest opportunity following receipt of the external assessors report. The external assessment report will be accompanied by a written action plan in response to significant findings and recommendations contained in the report. Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year, which will include any progress made.

3.7 NCC Internal Audit is part of the Core Cities group that took the decision to undertake peer reviews within the group during 2016/17.

3.8 The result of the latest external assessment completed by the team from Birmingham City Council in March 2017 concluded that NCC Internal Audit mostly conforms to the requirements of the PSIAS.

4 Follow Up



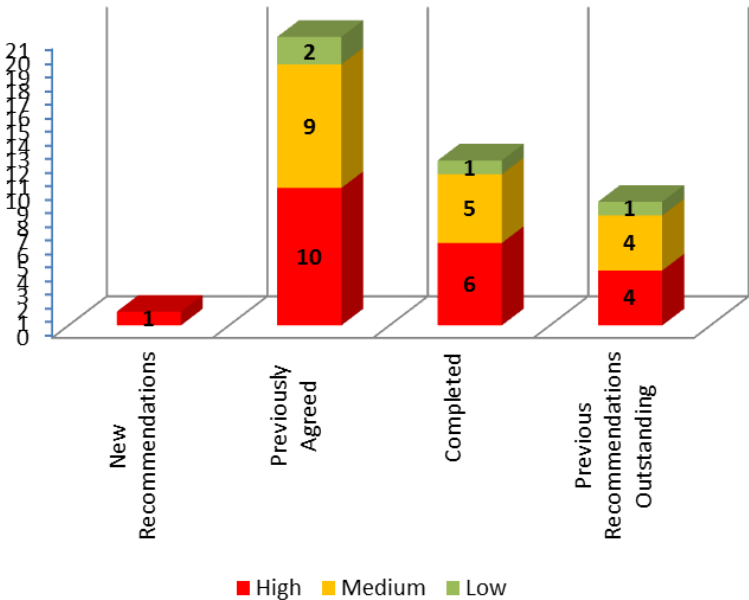
4.1 The Head of Internal Audit will implement appropriate follow up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

Summary of reports with High Priority Recommendations

Appendix 2



Adult Residential – Follow-up

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Children & Adults</p>	<p>Overall Opinion: Limited Assurance</p>		<p>Direction of Travel:</p> 																				
<p>Previous reviews: Adult Residential 12 April 2016</p>		<p><u>Scope and Approach:</u> The scope was limited to a review of outstanding recommendations from the 2015/16 report.</p>																					
<p>New High Priority Recommendations:</p>																							
<p>R1 2016/17 The contents of the lower ground floor safe should be checked and a new contents list created and checked regularly. Client money should be returned to the client or SCN and property and documents returned to the family or held securely in a tagged pouch.</p>	<p>Summary of recommendations by priority</p>  <table border="1"> <caption>Data for Summary of recommendations by priority</caption> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>New Recommendations</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>10</td> <td>9</td> <td>2</td> </tr> <tr> <td>Completed</td> <td>6</td> <td>5</td> <td>1</td> </tr> <tr> <td>Previous Recommendations Outstanding</td> <td>4</td> <td>4</td> <td>1</td> </tr> </tbody> </table>			Category	High	Medium	Low	New Recommendations	1	0	0	Previously Agreed	10	9	2	Completed	6	5	1	Previous Recommendations Outstanding	4	4	1
Category	High	Medium	Low																				
New Recommendations	1	0	0																				
Previously Agreed	10	9	2																				
Completed	6	5	1																				
Previous Recommendations Outstanding	4	4	1																				

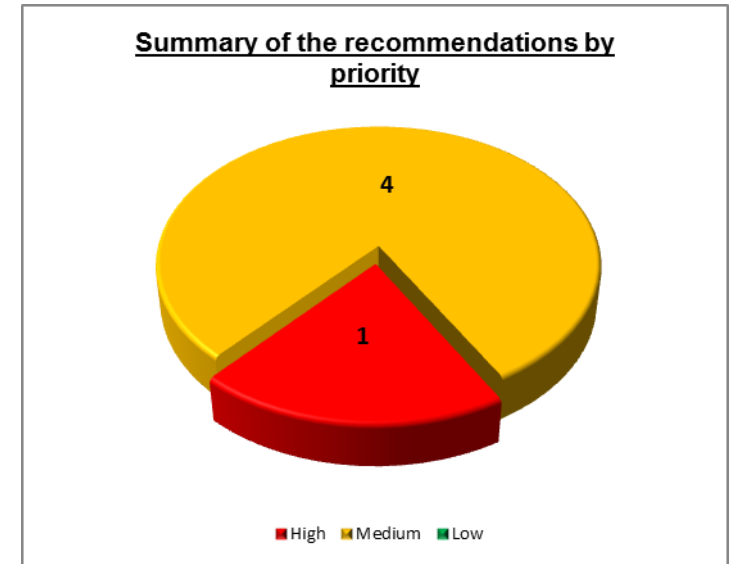
Data Protection

Executive Summary



<p>Organisation: Nottingham City Council Directorate: Development and Growth</p>	<p>Overall Opinion: Limited Assurance</p>		<p>Direction of Travel: This area has not been reviewed previously.</p> 
<p>Previous reviews: None</p>	<p><u>Scope and Approach:</u> The scope of this review covered:</p> <ul style="list-style-type: none"> • Consider the changes that are required under the GDPR and consider to what extent NCC meets these requirements (GAP analysis) and review any plans and ascertain the progress to date. • Consider the 2014 ICO action plan in conjunction with the above and identify where improvements will be required. 		

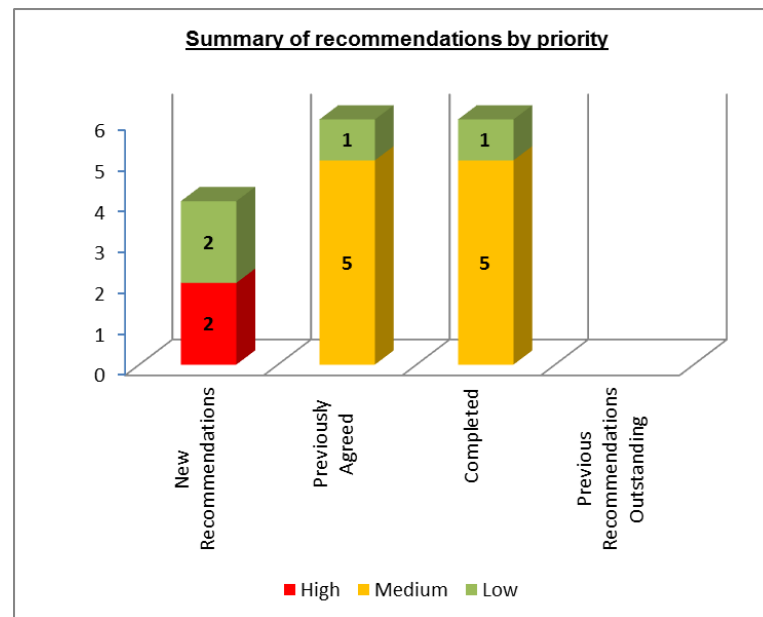
High Priority Recommendations

- R1 A project plan, risk register and project group should be established in order that the City Council may review, introduce, amend and embed working practices to comply with the new regulation.
- The plan should incorporate an element of education in order that all colleagues are aware of the risks and consequences of none compliance.



Taxi Licensing – Follow-up Executive Summary

<p>Organisation: Nottingham City Council Directorate: Community Protection</p>	<p>Overall Opinion: High Assurance</p>		<p>Direction of Travel: </p>
<p>Previous reviews: Review of Taxi Licencing, September 2015</p>	<p><u>Scope and Approach</u> To follow-up and verify measures put in place as a result of the agreed action plan in the September 2015 Internal Audit report. Additionally, it was agreed that progress in completion of actions from the Casey Report would be assessed.</p>		
<p>High Priority Recommendations</p>			
<p>There are two high priority recommendations:</p>			
<ol style="list-style-type: none"> 1. Testing criteria on the safeguarding training should be introduced and attendees should sign the test sheet to acknowledgement their understanding of the course contents. 2. Licence applicants should have to provide an appropriately recognised English and/or English as a second language qualification. 			



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Final Audit Reports issued 1st January to 31st March 2017

Department	Division	Activity	Level of Assurance	Recommendations Agreed			
				High	Medium	Low	
Children and Adults	Adult Social Care	Adult Residential - Follow-up	Limited Assurance	10	9	2	
	<i>Adult Social Care Total</i>			10	9	2	
Children and Adults Total				10	9	2	
Commercial and Operations	Community Protection	Taxi Licensing 2015-16 follow up	High Assurance	2	5	3	
	<i>Community Protection Total</i>			2	5	3	
Commercial and Operations Total				2	5	3	
Development & Growth	Grants	Development - Housing Grants	Significant Assurance	0	1	0	
	<i>Grants Total</i>			0	1	0	
	Economic Development	Woodfield Industries 2014 - Follow-up	Significant Assurance		4	0	
	<i>Economic Development Total</i>			0	4	0	
	Strategic Asset & Property Management	Estates Rents 2015 - Follow-up		Significant Assurance	0	3	1
		Property Management 2014-15 - Follow-up		Significant Assurance	0	3	0
		Data Protection 2016-17		Limited Assurance	1	4	0
<i>Strategic Asset & Property Management Total</i>			1	10	1		
Development & Growth Total				1	15	1	
			Grand Total	13	29	6	

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Summary Internal Audit Plan / Outturn 2016/17

Audit Area	Planned Days	Actual Days
Strategic Risk Register	30	0
Resources	124	107
Chief Executive/Transformation	70	81
Children & Families	140	143
Commercial & Operations	70	30
Development	108	58
Corporate Audits	346	284
Fraud / Counter Fraud	500	549
Corporate Fraud Strategy	48	27
Companies / Other Bodies	354	449
Consultancy, Advice and Support	120	175
Developments / Other Work	80	169
Total Days	1990	2072

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Final Reports Issued During 2016/17

Title	Level of Assurance
Welbeck Primary School	High
Growth Point	High
Bank Reconciliation	High
Treasury Management	High
Councillors' Allowances	High
Fernwood Infant School	Significant
Rufford Primary School	Significant
Claremont Primary & Nursery School	Significant
Dunkirk Primary School	Significant
Greenfields Community School & Foundation Unit	Significant
Heathfield Primary & Nursery School	Significant
Robin Hood Primary School	Significant
Southglade Primary School	Significant
Whitegate Primary School	Significant
Recruitment	Significant
Housing Benefits	Significant
Woodfield Industries Follow Up	Significant
Nottingham Jobs Fund	Significant
Estates Rents Follow Up	Significant
Property Management Follow Up	Significant
Corporate Maintenance	Significant
IT Security Policy & Penetration Testing	Significant
Better Bus Area 2 Grant	Significant
LA Bus Subsidy Ring-fenced (Revenue) Grant	Significant
Local Transport Plan Grant	Significant
Rogue Landlord Grant	Significant
NNDR	Significant
Foster Care & Adoption Follow Up	Significant
Taxi Licensing Follow Up	Significant

Title	Level of Assurance
Commercial Waste Follow Up	Significant
Housing Rents	Significant
Development - Housing Grants	Significant
Environmental Health (HMO) Follow Up	Significant
CTAX	Significant
Capital Fees	Short Briefing
Bulwell St Marys School	Limited
Dovecote Primary School	Limited
Rosehill Special School	Limited
Performance Indicators	Limited
Works Perks	Limited
IT Security Access Management	Limited
ANPR	Limited
NCC - AP Duplicate Payments Testing	Limited
Equality Impact Assessments Follow-up	Limited
Adult Residential	Limited
Adult Residential Follow Up	Limited
Data Protection	Limited
Health & Safety	Limited

AUDIT COMMITTEE – 14 July 2017

Title of paper:	INTERNAL AUDIT CHARTER	
Director(s)/ Corporate Director(s):	Geoff Walker 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	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 has fully reviewed and updated from that endorsed at the July 2016 meeting of this Committee. This change results from updated PSIAS requirements,

actions agreed from both internal and external assessments of conformance with PSIAS, and Internal Audit's Quality Assurance and Improvement Plan.

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

3.1 None.

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- The Accounts and Audit Regulations 2015
- Public Sector Internal Audit Standards (Updated March 2017)
- Audit Committee 1 July 2016 - 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
1110	Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity	Comply
1110	Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations	Comply
1110	The chair to provide feedback for the Chief Audit Executive's performance appraisal	Comply
1130	Approve significant* additional consulting services agreed during the year and not already included in the audit plan, before the engagement is accepted	Comply
1320	Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive	Comply
2020 & 2030	Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters	Comply

PSIAS ref	Duty of the Board	Compliance or Explanation
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 & 2440	Approve release of engagement records or results to external parties, as appropriate

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 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

PSIAS ref	Role
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

PSIAS ref	Role
	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 Audits 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:

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 1998*
- *Fraud Act 2006*
- *Bribery Act 2010*
- *Freedom of Information Act 2000*
- *Human Rights Act 1998*
- *Local Government Act 2002*
- *Police & Criminal Evidence Act 1984*
- *Proceeds of Crime Act 2008*
- *Regulation of Investigatory Powers Act 2012*
- *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, Leader, Section 151 Officer and Director of Legal & Democratic Services (& Monitoring Officer) 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
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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AUDIT COMMITTEE – 14 July 2017

Title of paper:	INTERIM ANNUAL GOVERNANCE STATEMENT 2016/17	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Internal Audit Tel: 0115-8764245 Email: shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note the interim AGS 2016/17 set out at Appendix 1.	

1. REASONS FOR RECOMMENDATIONS

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

2. BACKGROUND

- 2.1 The City Council's governance arrangements aim to ensure that it sets and meets its objectives and responsibilities in a timely, open, inclusive and honest manner. The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.
- 2.2 The Accounts and Audit Regulations 2015 specify that every financial year the Council must undertake a review of the effectiveness of its internal control and prepare an AGS.
- 2.3 The Audit Committee has the delegated authority for the formal approval of the AGS in accordance with the requirements of the Accounts and Audit Regulations 2015. The AGS should be approved by the Audit Committee before it approves the Statement of Accounts on behalf of the Council
- 2.4 The 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. 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 February 2017 meeting of this Committee. This interim statement is a precursor to the final statement, which will be brought to the September meeting of this Committee for approval alongside the Statement of Accounts.
- 2.6 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) / Acting Director of Strategic Finance.
- 2.7 Assurance used in compiling the report was derived from several sources: Corporate Directors and other key colleagues including the Monitoring Officer, Section 151 Officer and the Head of Internal Audit have reviewed the governance arrangements according to their respective responsibilities and have given assurance and commented as to its effectiveness. A similar exercise was conducted with the Council's significant partners and groups. Information obtained from independent external reviews is also used to inform this assurance.
- 2.8 In accordance with the Local Code of Corporate Governance the final AGS will be signed by the Leader of the Council, 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. New items of note have been included regarding Capital project financing, Housing Revenue Account, and EnviroEnergy. Two items are no longer considered of note regarding Nottingham Express Transit Phase 2, Nottingham Revenues and Benefits and Blueprint.

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

None.

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2016
- Accounts and Audit Regulations 2015
- Executive Board 20 May 2008 – Local Code of Corporate Governance
- Audit Committee Papers February 2017 – Annual Governance Statement - Progress Made To Date On Issues Reported 2015/16 And Process For Producing 2016/17 Statement

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Annual Governance Statement 2016/17

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 2016/17 and also meets the requirements of the Accounts and Audit (England) Regulations 2015, which require all relevant bodies to review their system of internal control and prepare an Annual Governance Statement.
- 1.4. In addition the CIPFA Code of Practice on Local Authority Accounting requires reference to and assessment of the effectiveness of key elements of the governance framework, including group activities where the activities are significant, and the role of those responsible for the development and maintenance of the governance environment such as the authority, the executive, the audit committee and others as appropriate.

2. Purpose of the Governance Framework

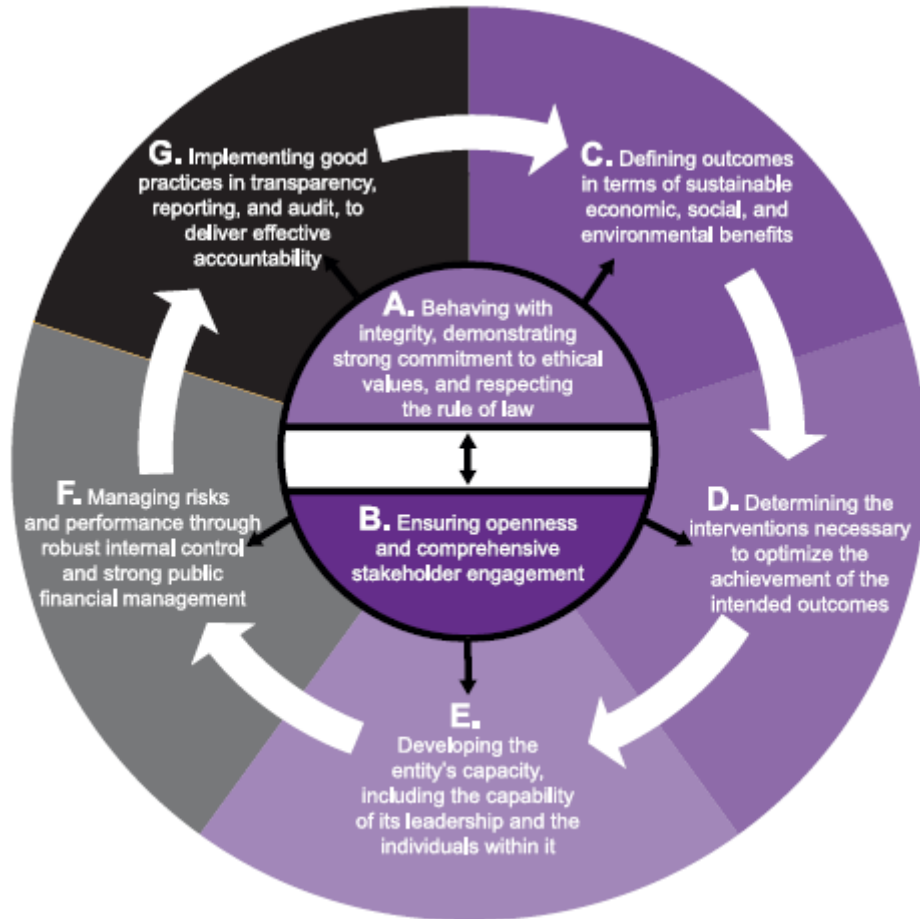
- 2.1. Good governance helps the Council to set good objectives and achieve them
- 2.2. The guidance for implementing good governance was updated in 2016 by CIPFA / SOLACE to reflect a revision to the international framework in 2014 (see below). It places the attainment of sustainable economic, societal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

3. The Governance Framework

Governance Principles & How NCC Aims to Meet Them

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

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



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

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

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

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

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

most instances. More serious matters would be investigated formally if required and referred to the Monitoring Officer in the first instance and then to the Standards Committee if appropriate.

- 3.5. The Local Government Ombudsman report presented to Audit Committee identified that whilst the most frequent areas for complaints and level of upheld complaints were proportionate to those in similar authorities, a clear theme within the upheld complaints was communication and administration and a new complaints process is now in use.
- 3.6. The Register of Significant Partnerships, another mechanism of the Partnership Governance Framework, records the status of each significant partnership and is updated annually.
- 3.7. The annual 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
- 3.8. As Head of Paid Service, the Chief Executive is ultimately responsible and accountable to the Council for all aspects of operational management.
- 3.9. The Council's establishment incorporates all posts required by statute. Two key roles are performed by the Monitoring Officer and Section 151 Officer. The roles of these officers are defined clearly in their job descriptions and summarised below.

3.1 Key Statutory Posts	3.2 Summary of Role
3.3 Monitoring Officer	3.4 Undertaken by Corporate Director of Resilience in 2016-17, and to be undertaken by Director of Legal & Governance from the end of June 2017 3.5 Ensures that agreed procedures are followed including all applicable statutes, regulations and statements of good practice 3.6 Manages arrangements for whistle blowing 3.7 Ensures that professional advice is taken before making decisions with legal / financial implications, and reports to Boards and Committees include this advice
3.8 Section 151 Officer	3.9 Undertaken by the Director of Strategic Finance 3.10 Provides the Council with advice on financial matters 3.11 Manages the keeping of financial records and accounts 3.12 Ensures that effective systems of internal financial control are maintained

- 3.10. 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. Changes to the Constitution including those to financial reporting are made at a meeting of Full Council.
- 3.11. 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.

3.12. In order to ensure that the Council acts in the public interest at all times the Chief Executive has communicated expectations within a message map as part of the Council's Good to Great journey as follows

Message Map



B. Ensuring openness and comprehensive stakeholder engagement

3.13. The Council has a Research, Engagement and Consultation team that leads on corporate engagement for example the annual Citizens Survey and the Colleague Opinion Survey. They also provide detailed advice and guidance on all aspects of research, engagement and consultation for colleagues across the authority. Regular engagement activities such as ward surgeries and tenant and resident association meetings are captured in an engagement calendar. Results from internal and external consultations have been analysed and published.

3.14. 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.

3.15. The Council's performance in respect of Freedom of Information and Environmental Information Regulations requests has been improved and remains above the statutory target, which was increased in 2016/17.

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

- 3.16. The Council defines outcomes through a number of processes including agreeing a long-term vision, agreeing medium term and shorter term plans.
- 3.17. The Council's vision is wholly aligned with that of the City as set out in the 2030 vision and Nottingham Plan to 2020. Accordingly, this vision and the associated Nottingham Plan Strategic Priorities are set and are not subject to annual review and change.
- 3.18. 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
 - Greener Nottingham
- 3.19. 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.
- 3.20. The ON Board has begun work on 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.
- 3.21. 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
- 3.22. The Council Plan underpins the council's wider Good to Great journey, with a continued emphasis on placing citizens at heart of everything the Council does to shape its service delivery going forward. It has clear priorities with associated performance measures supported by delivery plans containing the key milestones and measures for each Plan priority. On a monthly basis, the Corporate Leadership Team manages major changes, including all internal transformational projects and programmes, which together ensure that the Council is well placed to lead Nottingham and optimise what it does for and on behalf of its citizens.

- 3.23. 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. .
- 3.24. The Nottingham Plan, Council Plan and other key plans such as the Children & Young People's Plan are published as appropriate and are available to all members of the public. Regular performance reports on the progress in delivering Plan objectives are provided for councillors to review performance. Financial statements are published annually and equally the Medium Term Financial Strategy (MTFS) is a publicly accessible document. Regular updates and reviews ensure consistency within plans and reflect national developments including the effects of reduced Government funding. Ultimately this means the Council's priorities and those of its key partners over both the short and long term, are in accord. The principles underpinning the Plan are summarised in the updated Council's 'Message Map' below, which illustrates the direction and focus for the Council.
- 3.25. 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.
- 3.26. 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.
- 3.27. 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

- 3.28. 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.
- 3.29. 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.
- 3.30. 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.

- 3.31. A thorough review of the PMF is currently being undertaken and a revised version is expected by autumn 2017.
- 3.32. 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.
- 3.33. The Finance restructure has concentrated on improvement to financial systems.

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

- 3.34. 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.
- 3.35. 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.
- 3.36. 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.
- 3.37. Initial feedback has been overwhelmingly positive, with the review team commenting that the Council clearly has a record of delivering priorities and innovating, and that Citizens at the Heart permeates the organisation. The full written report is expected late June 2017 and further details can be provided after then.
- 3.38. Development of councillors and colleagues induction arrangements, learning and development, generic, individual and group based training and development activities continued throughout 2016/17 with a mix of internal and external provision. A councillor induction programme was delivered by the cross party Councillor Development Steering Group (CDSG) and at the outset included skills audits in relation to IT to ensure that new councillors could be supported in adapting to the council's preferred ways of working electronically. The induction programme has continued to meet new councillor's needs over the last year and CDSG has continued to plan for and support both new and returned councillors' general and individual development needs and aspirations. Training tailored to political group preferences and generic and individual needs has been prepared and delivered on an ongoing basis and will be reviewed by CDSG
- 3.39. The Councillors' Allowances Scheme was reviewed in full by a newly constituted Independent Remuneration Panel in November / December 2016. The Panel's report was submitted to Council in January 2017 and its recommendations were accepted in full at that meeting. The revised scheme has now been implemented and new rates of basic and special responsibility allowances are set out in the Council's Constitution, which is available on the Council's website. The amounts of allowance paid to individual councillors is checked and publicised on a monthly basis throughout the year and the process for ensuring that members' allowances and any expenses approved under the Scheme are paid correctly has received a rating of High

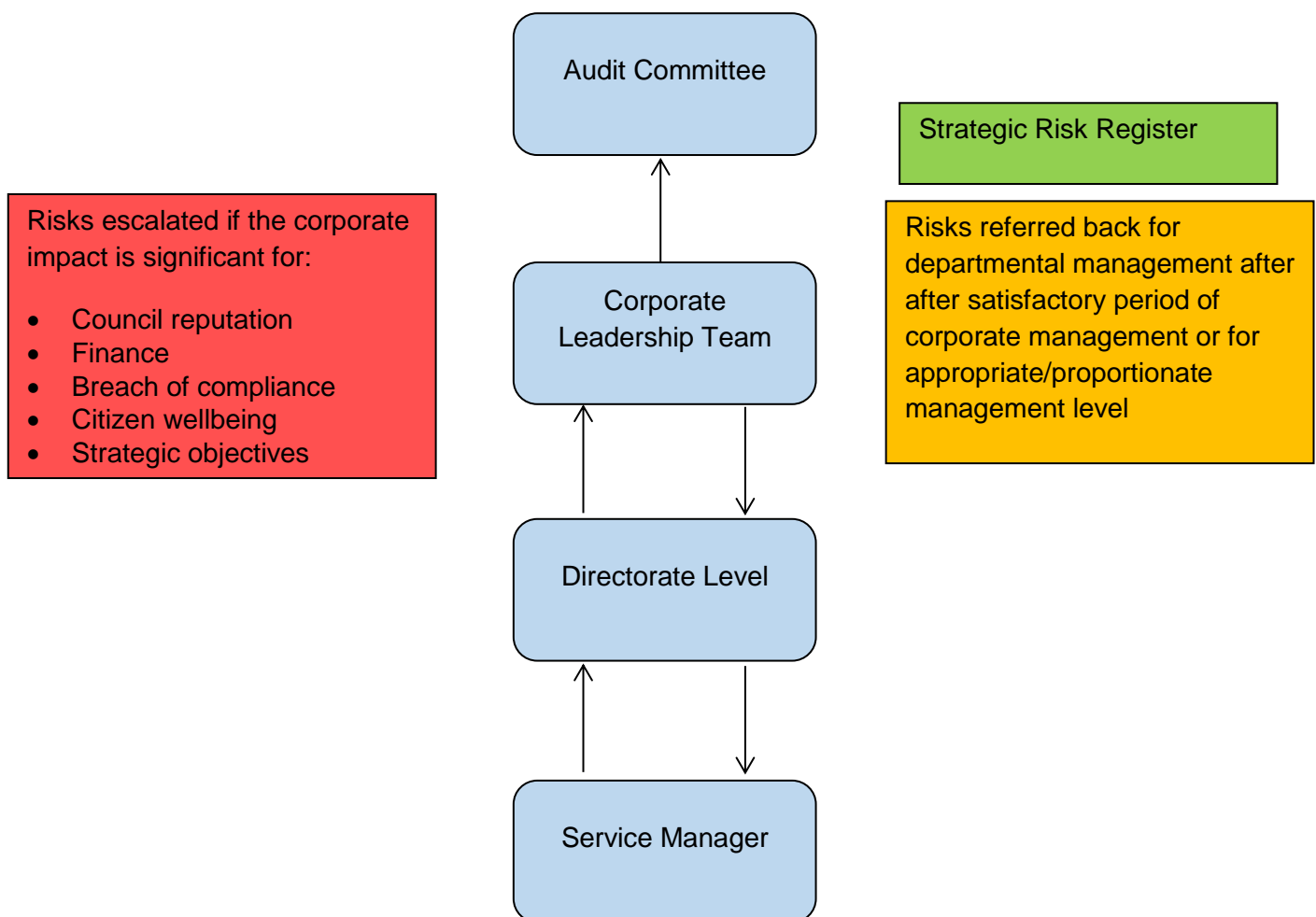
Assurance under a previous internal audit procedure. Accordingly, there is clarity both internally and externally about the remuneration of councillors.

3.40. Effective succession planning has taken place for the role of Monitoring Officer.

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

3.41. 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



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

3.43. The Chief Finance Officer (CFO) is a professionally qualified accountant. 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 Strategy	Procurement Strategy	Risk Management Framework
Guidance	CIPFA technical guidance &	Budget Guidelines	Capital Guidelines	CIPFA Code of Practice for TM	CIPS Procurement Toolkit &	Risk Management Policy and Guidance
Plans	MTFP	Annual Budget	Capital Programme & AMP	Treasury Policy Statement	Procurement Checklist	Risk Responses
Governance	Constitution	Budget Management & Control statements & Annual Governance Statement		Prudential Indicators & Annual Report	Contract & Finance Procedure Rules	Risk Register reporting and regular review
	Financial Regulations and Standing Orders					Audit Committee Reports & annual report

3.44. 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.

3.45. 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.

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

3.46. 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.

3.47. In order to keep the One Nottingham Board (ON Board) relevant to the city and to maintain good relationships across Nottingham the ON Board invited some additional members strategically placed members who accepted the role and have been

working actively since. The Portfolio holder for the ON Board has now changed. Cllr Neal has taken on the portfolio. Cllr Neal is familiar with the way ON works having been active in the partnership previously. He will take part in regular briefings with the chair of the Board and Director of ON.

- 3.48. 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.
- 3.49. The Council complies with relevant statutory financial reporting processes and guidance including production of a published Annual Statement of Accounts.
- 3.50. Annual performance highlights are published in The Nottingham Arrow in the summer with quarterly summaries published on Nottingham Insight.
- 3.51. 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

- 3.52. 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

- 3.53. 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
- 3.54. The Audit Committee also external sources of assurance, departmental arrangements for assurance, risk management, key systems, governance audits, companies, partnerships, departmental audits, fraud
- 3.55. 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. During 2016/17, the Council's arrangements for Internal Audit were externally assessed against Public Sector Internal Audit Standards.

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 2016/17, the HoIA maintained processes complying with the governance requirements set down in the CIPFA Statement on the role of the Head of Internal Audit. The service met the requirements of the Account and Audit Regulations 2015 and associated regulations and an independent review confirmed the service mostly conformed to the detailed principles contained in the Public Sector Internal Audit Standards (PSIAS).
- 4.4. The HoIA reports to Corporate Directors and stakeholders who are responsible for ensuring that proper standards of internal control operate within their areas of responsibility. Internal Audit has reviewed the controls and given an opinion in respect of the systems and processes found in place. The 2016/17 Audit Plan, as agreed by the Audit Committee and Corporate Directors and key stakeholders, was completed in accordance with the professional standards. The HoIA has also overseen those policies and procedures in place addressing the risk of fraud and irregularity, and is of the opinion that they align with best practice as described in the CIPFA Code for managing the risk of fraud and corruption. The HoIA has continued to develop the use of a corporate team to strengthen the counter fraud function.

Head of Audit & Risk (HoIA) Opinion

- 4.5. The mandatory Public Sector Internal Audit Standards require the HoIA to give an opinion and report to support the City Council's Annual Governance Statement. Corporate Directors are responsible for ensuring that proper standards of internal control operate within their directorates. IA reviews these controls and gives an opinion in respect of the systems and processes put in place. The audit work concludes with a report detailing the findings and giving an overall level of assurance.
- 4.6. The IA service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee. The 2016/17 Audit Plan has been completed in accordance with the PSIAS and other professional standards applicable to the service. The IA service has undertaken reviews of the internal control procedures in respect of the key systems and processes of the Council and its partners, where appropriate. The service has operated within professional standards as PSIAS.
- 4.7. Planned work has been supplemented by ad hoc reviews in respect of irregularities and other work commissioned by Corporate Directors or the partners of the City Council and the work undertaken by external review agencies. Reports in respect of all reviews have been issued to the responsible colleagues, together with recommendations and agreed action plans. Further, each quarter a list of reports has been sent to the Committee for consideration.
- 4.8. Throughout 2016/17, 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 2016/17, 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

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 2016/17 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 2016/17 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a reasonable level of assurance can be given that internal control systems are operating effectively within the Council, its significant partners and associated groups..

Other Assurance Activities

4.10. Corporate Directors and statutory officers have provided an assurance statement supporting the AGS for 2016/17. These statements have been supplemented by assurance gathered from key colleagues responsible for Internal Audit, Risk, Human Resources, significant partnerships and group members, and have also been informed by independent external reviews, including the external auditor. The assurance is based around questionnaires developed from the CIPFA/SOLACE Framework for Corporate Governance.

4.11. 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 Council's Accountancy and Audit services continue to monitor the activity and performance of EMSS closely. Issues have been faced in terms of financial management since the implementation and delays have been experienced in making payments. The causes of this issue have been addressed and the resulting payment backlog has been reduced. To provide clarity of responsibilities, a service level agreement has been set up between NCC and EMSS.
- 6.3. A new invoice scanning solution has been introduced in 2017/18 which embraces developments in OCR (Optical Character Recognition) technology which should provide for a more efficient and effective Accounts Payable service.
- 6.4. The restructure of Strategic Finance within NCC has seen the creation of a dedicated transactional team. This team will work closely with EMSS on improvement activity within Accounts Payable and Accounts receivable functions with the development of clear key performance indicators. Some of the programmed improvement activity has been put on hold pending the outcome of the joint project re the replacement of Oracle.

Replacement of Oracle

- 6.5. 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.
- 6.6. The current solution presents future support challenges. Our current version of e-business is only supported by Oracle until December 2021 and the current hosting contract is due for renewal in March 2019, although there is the option to extend for one year. This means that ideally we will have identified and implemented a suitable alternative by April 2020.
- 6.7. The Council is working with our partners to explore the opportunities to reduce the cost of providing the relevant functionality to their customers, improve the user experience and drive improvement and efficiencies through standardised, simplified processes. A joint project has been commissioned to assess and define the roadmap for HR and Finance systems in line with organisational requirements.

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

- 6.8. 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
- 6.9. 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
- 6.10. The Council submitted an Efficiency Plan (the basis being the MTFs) to DCLG in October 2016 with approval granted in November 2016, this was a requirement in securing the multi-year settlement covering 2016/17 to 2019/20. The four-year settlement gives the Council some additional certainty about future funding levels compared to the normal process of annual settlements.
- 6.11. Though the four year settlement was ‘guaranteed’ by the Secretary of State this will only be true if no significant, unforeseen financial changes occur for central or local government for example the consequences of the Brexit decision which are, as yet, unknown but the UK departure will have profound legal, economic, social and political implications.
- 6.12. The MTFP was presented to Council in March 2017 and proposed a balanced budget for 2017/18, but confirms the need for ongoing significant cost reductions in the short to medium term. The 2017/18 budget includes new budget reduction and income generation proposals of £13.088m and net contributions of c£10m from the integration of health and work is ongoing to identify delivery plan for this.
- 6.13. The outturn for 2016/17 is a net overspend of **£2.522m** and results in a reduction of the general fund balance. This represents a deterioration of **£0.601m** from that reported at quarter 3. The reduction in the Council’s overall funding envelope has resulted in budgets becoming increasingly difficult to achieve and this has been the case for 2016/17, the majority of the overspends are within the demand led areas. Management action is in place to review the impact of this overspend on the 2017/18 budget
- 6.14. The General Fund capital programme 2017/18 to 2021/22 of £396m shows a current funding surplus of £3.465m that represents 0.9% of the total programme and is to be used as a contingency against future pressures. The programme is predicated on a number of projects in development, the cost of these projects are estimated and are subject to change. These include the Broadmarsh schemes, which is a corporate priority, but funding is yet to be identified. Any surplus on the programme and future capital receipts will be ring-fenced for the Broad marsh schemes.

Housing Revenue Account – HRA

- 6.15. The HRA is balanced in medium term but there is a long-term gap on capital investment requirement.
- 6.16. The Welfare Reform and Work Act 2016 requires that social rents are reduced by 1% per annum for four years from 2016, with 2017 being the second year the Council has had to reduce rents. There is uncertainty over future rent policies after the four year period
- 6.17. Universal Credit will be rolled out in 2018 and 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

- 6.18. The cost of funding children in care arrangements and associated budget pressures are key issues facing the service. We are making some improvements with reduction

of agency staffing; for the first time in two years the three managers in fostering, adoption, and post order are substantive Nottingham City staff recruitment of carers continues to be a challenge, but we are continuing to meet and discuss our two key strands one related to recruitment and the other retention of carers on a fortnightly basis. A reward scheme has been put in place to incentivise our existing carers to nominate friends and family to foster with the Council.

- 6.19. Plans have been put in place to manage the numbers of children who remain in care. In January 2017 we have 605 children in our care, an increase of 17 from April 2016. This is 92.5 per 10,000 child population, similar Councils had 96.3 per 10,000 child population in April 2016.
- 6.20. Over the last three years the number of unaccompanied asylum seeking children in our care has increased from 8 to 23, Home Office grant supports the placement cost of these children. The number of care leavers who were former unaccompanied children is currently 30. Many of this older group are in various processes post 18 relating to their right to remain in the UK.
- 6.21. In the 2017/18 financial year our recruitment of fosters carers will be further strengthened with the additional capacity to ensure we respond promptly to prospective carers and support them through the process. Local Authorities continue to face aggressive competition from independent private sector agencies in the foster carer recruitment arena.
- 6.22. A parliamentary select committee is examining the challenge of foster carer recruitment nationally. A member of that committee Lillian Greenwood MP has met with our foster carers and managers as part of the committee's evidence gathering process.
- 6.23. 82.5% of our supported care leavers are aged 19-21 which is equal to national average and slightly higher than similar Councils average of 81.1%. Nottingham's has 56.1% of care leavers in employment, education or training greater than the national average of 49.3% and the similar council average of 47.7%.
- 6.24. The local CCG have just announced Department of Health funding for a new post to drive performance in relation to children in care health attainment.
- 6.25. In this financial year we are on track to meet our targets for adoption and other permanence outcomes for our children. The Department for Education have examined our adoption performance, and we had positive feedback regarding finding adopters for hard to place children such as a large sibling group of six who we managed to place together, and children with special needs.
- 6.26. Involvement in the criminal justice process of children in care aged 10-17 has fallen significantly in recent years from 16% to 5% and is now in line with similar Councils. Our part funding of a Police Officer post to work with children in care at risk of going missing or sexual exploitation, or other crime has received increasing recognition from other local authorities. South Yorkshire Police recently visited to look at this model. Mental Health Services and Education representatives continue to attend our weekly panel to review complex cases. A quality assurance officer based in the placements service monitors the quality of purchased placements, and visits external residential provision.
- 6.27. Our residential Children's homes continue to perform strongly when visited unannounced for inspection by Ofsted. Over the last 18 months our 7 Ofsted registered homes have been inspected unannounced by Inspectors on 21 occasions twenty of those visits have been judged as good or outstanding, on one occasion we

received a requires improvement outcome. Our five semi-independent homes continue to provide excellent transition to independence for our young people.

- 6.28. A team of four HMI Ofsted inspectors visited the Councils children's services between 23rd January - 3 February 2017 to pilot a new inspection framework. Feedback was very positive overall with improvements noted in children in care social work fostering and adoption.

Workplace Parking Levy (WPL)

- 6.29. 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. Should forecasts indicate that insufficient WPL income may be generated over the life of the NET Phase 2 contract to achieve a balanced position by 2033/34, decisions may be made in respect of the ongoing contributions to the Green Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

Information Governance

- 6.30. 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 being 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.
- 6.31. 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. Focussed activity around establishing sustainable operating models to ensure continued compliance in responding to all types of information requests is ongoing.
- 6.32. 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.
- 6.33. The Information Commissioners Office (ICO) has recently concluded its review of the consensual Data Protection Audit carried out in 2014. The ICO reported that she found it encouraging to see a significant improvement since the last review and now considers this review closed. However, the ICO does expect that the commitment demonstrated by NCC in improving its compliance with the DPA to be maintained.
- 6.34. In May 2018, the EU General Data Protection Regulation (GDPR) will replace the Data Protection Act 1998. The GDPR imposes new, and significantly more stringent, requirements for the handling of personal data. Although the position regarding the GDPR is not wholly clear, it is recognised that new procedures will need to be 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 is 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). It is recognised there could be significant associated budgetary, I.T., personnel, governance and communications implications. The internal audit report findings, and the ICO's 12 step GDPR checklist, are being used to develop the Council's GDPR action plan.

Information Technology

6.35.

Robin Hood Energy

6.36. 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 Board comprises five Directors (all Councillors).

Enviroenergy

6.37. 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 5 Directors (all Councillors) and meets on a bi-monthly basis.

6.38. The new appointment to Head of Enviroenergy, together with other key managerial appointments, is delivering new focus on infrastructure, investment and expansion with noticeable benefits in the following business performance areas necessary to sustain a heat network for the next 30 years :-

Asset Care, Engineering Risk, Statutory Maintenance, Environmental Compliance, Capital and Revenue expenditure, Income enhancement, Budget Control, Health & Safety, Training and Development, Operational Efficiency, Customer Services and Private Wire and District Heating Expansion and Strategic planning.

7. Conclusion

7.1. No conclusion on the review of effectiveness has been made at this point. A conclusion will be included in the final Annual Governance Statement, which is to be reported with the annual Statement of Accounts in September.

AUDIT COMMITTEE - 17 July 2017

Title of paper:	EMSS Annual Report 2016/2017	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Ext 64245 Shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note the Head of Internal Audit's opinion contained within the EMSS Annual Report 2016/2017 attached as Exempt Appendix 1 to this Report.	

EXEMPT INFORMATION:

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

1 REASONS FOR RECOMMENDATIONS

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

2 BACKGROUND

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

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

- 3.1 None.

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- 4.1 None.

Document is Restricted

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