



## **Nottingham City Council Audit Committee**

**Date:** Friday, 30 July 2021

**Time:** 10.30 am

**Place:** Tea Room - at the Council House

Please see information at the bottom of this agenda front sheet about ensuring Covid-safety at the meeting

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

**Director for Legal and Governance**

**Governance Officer:** Kate Morris

**Direct Dial:** 0115 876 4353

- |          |   |                  |
|----------|---|------------------|
| <b>1</b> | <b>Apologies</b>  |                  |
| <b>2</b> | <b>Declarations of Interests</b>  |                  |
| <b>3</b> | <b>Minutes</b><br>To confirm the minutes of the meeting held on 28 May 2021   | 3 - 12           |
| <b>4</b> | <b>Work Programme and Action Log</b><br>For noting  | 13 - 16          |
| <b>5</b> | <b>Working Group updates</b><br>Verbal Update from the Chairs of each Working group   | Verbal<br>Report |
| <b>6</b> | <b>2019/20 Accounts update</b><br>Report of the Interim Corporate Director of Finance and Resources   | To Follow        |
| <b>7</b> | <b>Draft Statement of Accounts 2020/21 and Draft Annual Governance Statement 2020/21</b><br>Report of the Interim Corporate Director of Finance and Resources | To Follow        |
| <b>8</b> | <b>External Audit Update</b><br>Verbal update from External Auditors, Grant Thornton  | Verbal<br>Report |

<b>9</b>	<b>Treasury Management 2020/21 Annual Report</b> Report of the Interim Corporate Director of Finance & Resources and S151 Officer	17 - 38
<b>10</b>	<b>Internal Audit Annual Report and Opinion</b> Report of the Interim Corporate Director of Finance and Resources	39 - 154
<b>11</b>	<b>Exclusion of the Public</b> 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.	
<b>12</b>	<b>Exempt Minutes</b> To confirm the exempt minutes of the meeting held on 28 May 2021	155 - 156

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- Remain seated and maintain distancing between seats throughout the meeting. Please also remember to maintain distancing while entering and leaving the room and while in the building;
- Wear face coverings throughout the meeting;
- Make use of the hand sanitiser available and, when moving around the building follow signs about direction of travel, lift capacities etc.

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## **Nottingham City Council**

### **Audit Committee**

**Minutes of the meeting held at The Ballroom - The Council House, Old Market Square, Nottingham, NG1 2DT on 28 May 2021 from 10.30 am - 2.01 pm**

#### **Membership**

##### **Present**

Councillor Audra Wynter (Chair)  
Councillor Graham Chapman  
Councillor Michael Edwards  
Councillor Jane Lakey  
Councillor Sajid Mohammed  
Councillor Anne Peach  
Councillor Andrew Rule

##### **Absent**

Councillor AJ Matsiko

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

Beth Brown	-	Head of Legal and Governance
John Gregory	-	Grant Thornton External Auditors
Richard Henderson	-	Director of HR, Equalities, Diversity and Inclusion
Paul Millward	-	Head of Scrutiny and Resilience
Shail Shah	-	Head of Audit and Risk
Kate Morris	-	Governance Officer

#### **1 Appointment of Vice Chair**

**Resolved to appoint Councillor Sajid Mohammed as Vice-Chair of this Committee for this municipal year (May 2021 to April 2021)**

#### **2 Apologies**

Councillor AJ Matsiko – Council Business

Clive Heaphy – Interim Corporate Director for Finance and Resources and Section 151 Officer.

#### **3 Declarations of Interests**

Committee members received advice on declarations of interest compared to information given in the interest of openness. All Councillor interests are listed on the Nottingham City Council website.

#### **4 Minutes**

The minutes of the meeting held on 26 March 2021 were confirmed as a true record and were signed by the Chair.

## **5 Work Programme and Action Log**

Shail Shah advised the committee that since the publication of the Agenda the June Committee meeting has been cancelled and Accounts reports would be presented to the July committee as statutory deadlines have been extended again as a result of Covid-19. An additional committee date has been incorporated into the later part of the year.

Committee members requested that a time to reflect on the impact of the Improvement Board be added to the work programme to evaluate effectiveness and inherent risks.

## **6 Working Group updates**

The Chair invited updates from the Working Groups.

The Risk and Assurance working group has not met since the last Committee but is due to do so prior to the next committee.

Councillor Graham Chapman updated the committee on the Anti-fraud Working group. The following points were highlighted:

- (a) Staff originally working on the Fraud detection team need to be returned to their substantive post to focus on re-establishing this important income stream. The working group is pushing its agenda forward, with a focus on NNDR business rates, Council tax and Waste collection charges;
- (b) Although this focus is narrow it represents the best use of resources with a high return of income. Joint working practices are in place with Nottingham City Homes to maximise fraud prevention and detection within right to buy claims, repairs and housing benefit claims;

Councillor Andrew Rule confirmed that the Companies Working Group had met, and draft Terms of Reference circulated to members for comment. Dates have been put in place and the first meeting is due to take place soon

Councillor Jane Lakey informed the Committee that the Capital Working Group have Terms of Reference in place with a focus for the group agreed as gateway projects, Asset Sales and an in-depth look at one or two major projects per meeting.

## **7 Annual Audit Letter 2018/19**

The Chair of the Committee agreed that this item, although not on the agenda, could be considered as a matter of urgency in accordance with Section 100B(4)(b) of the Local Government Act 1972, because under the Account & Audit Regulations the Audit Committee must meet to consider this letter as soon as reasonably practicable, and then publish the letter. Considering it at this meeting and publishing the letter allows the Council to meet its statutory duty and close all matters relating to the 2018/19 accounts. This can then also be reflected in the reports from the Improvement and Assurance Board to Ministry of Housing Communities and Local Government.

John Gregory, External Auditor, presented the Audit Letter for 2018/19 Accounts. He informed the committee that all the points within the letter had been discussed at the previous Audit Committee (March 2021 Minute reference 84) and that the 18/19 accounts had now formally been closed.

## **8 Verbal Update from External Auditor**

John Gregor, External Auditor, provided a verbal update on the progress of the 2019/20 and 2020/21 audit. He highlighted the following points:

- (a) The 19/20 accounts are progressing well and there is significant effort being made to make up time following the delay caused by the 18/19 audit.
- (b) There are still outstanding issues around the valuation of assets as discussed previous (February 2021, Minute reference 73 c) however this will be worked on in the next month or so with specific Officers.
- (c) There is still an issue with the Robin Hood Energy (RHE) Accounts and how they will be consolidated into the Group accounts as the company's auditor has not been required to finish the 19/20 accounts following the company's closure,
- (d) The work done on the RHE accounts has been done on the basis of a going concern although auditors are fairly satisfied that in accounting terms the difference isn't that significant and not material to the accounts. Work continues with the company's auditors to give assurances to NCC accounts;
- (e) 19/20 work on the Value for Money conclusion is well underway and it is possible that this can be reported to this committee in late July;
- (f) The 20/21 draft accounts will be presented to this committee in late July. RHE will again impact on the time scales of the work, as there are no draft accounts to consolidate into the group accounts. Discussions are ongoing with the Section 151 Officer, the external auditors for RHE the administrators and Grant Thornton around how accounts can be incorporated into the Group accounts;
- (g) Other currently identified issues being addressed for the 20/21 accounts include Covid Funding, PPE valuation and technical journal entries;

Following comments and questions from Committee members, additional points were highlighted:

- (h) The Administrators of RHE do not have to work with the timetable for NCC accounts and do not have to take them into account within their work stream. The Administrators have agreed that the Council can have access to the accounts;
- (i) Committee members suggested obtaining copies of accounts from companies on a 6 monthly basis to avoid a similar situation in the future and the possibility of adding this point to Shareholder Training was highlighted;

The committee noted the update provided by the External Auditor.

## **9 Annual Report of health and safety within the council**

Paul Millward, Head of Resilience, introduced the annual report on Health and Safety within the Council to the Committee. He highlighted the following points:

- (a) Figures for mandatory compliance around training are down slightly from the previous years but this is due to recent turn over in SLMG staff and Covid-19 response taking priority. There is a work plan in place to ensure that those staff who have not had the mandatory training at this point will have completed that by the end of July 2021;
- (b) There have been no interventions by the Health and Safety Executive;
- (c) Reports of violence and accidents have seen a decrease on the previous years figure, this is probably due to the Covid-19 pandemic;
- (d) There is a project ongoing with HR around Health and Safety for Council Colleagues whilst working from home, there is a responsibility both on the part of the Employer and the Employee to ensure Health and Safety standards are maintained;

During discussion these additional points were made:

- (e) Where an incident of violence is also a hate crime it is reported as such;
- (f) An update on the on progress on mandatory training will be sent to the Risk and Assurance working group

**Resolved to:**

- (1) Require all Corporate Directors ensure their departmental colleagues can demonstrate up to date training in the mandatory health and safety courses, and where appropriate, asbestos management by Friday 30 July 2021;**
- (2) Require all Corporate Directors ensure that all outstanding Accident/Violence/Audit recommendation are completed and recorded on the corporate system by Friday 30 Jul 2021**
- (3) Note the absence of any Health and Safety Executive intervention in the Council in the past three years**
- (4) Ask that the Risk and Assurance working group review updated figures after 30 July 2021**

## **10 COVID-19 and Emergency Planning**

Paul Millward, Head of Resilience presented the report on Covid-19 and Emergency planning to the committee. He advised that this report looked only at the existing emergency plans and arrangements at the start of the pandemic and had not been written to assess the Council's response to the Covid-19 pandemic. The assessment of the Council's response is a larger piece of work that is underway and will be

reported appropriately in the future. Paul went on to highlight the following points around the existing plans:

- (a) Emergency plans are designed to deal with consequences of emergencies.
- (b) There was no specific plan in place locally or nationally for a Covid-19 pandemic;
- (c) The National Risk Register details pandemic Flu as the number one risk and as such, the risk specialists have trained and exercised a pandemic flu scenario. The Local authority has a Pandemic plan focusing on Council services and staff, and the Local Resilience Forum (LRF) has a pandemic Flu plan, detailing how major stakeholders work together. The LRF also had a number of subsidiary plans, such as Excess deaths, humanitarian assistance, communications etc. which were used;
- (d) Regular reviews of the plans have been taking place throughout the pandemic to ensure that they are sufficient and cover all aspects. There were a number of small gaps in contingencies, however, these have been identified and plugged. A government task force reviewed the plans and made a number of small recommendations which were implemented;
- (e) The report offers the committee assurance that sufficient plans were in place and that emergency planning structures and processes were in place as early as the end of March 2020 within the Council to continue offering essential services to citizens in most need;

During discussion the following points were highlighted.

- (e) If a third wave happens the Council has structures and plans in place to ensure that citizens continue to receive services;
- (f) In terms of reviews of performance, formal debriefing is likely to begin in June or July dependant on the national situation with reviews taking place after summer as long as a third wave is not occurring or threatening;
- (g) Committee members asked that their gratitude for officers and recognition of their hard work be placed on record, in particular the relentless effort and commitment of Paul and his team of emergency planners;
- (h) The Local risk register prioritise the work of the team. It is not possible to predict spikes in work but it is possible to manage the small emergency planning team and prioritise work. The resourcing for planned reviews will remain a struggle;
- (i) Emergency plans are reviewed in general ever three years by both Nottingham City Council and the LRF. This ensures that plans are up to date and responsive to developing situations;

The Chair commented that everything presented at the meeting offered assurance that plans had been in place as best they could be for such an unprecedented situation.

## **Resolved**

- (1) To confirm assurance that specific and generic plans and arrangements were in place to deal with a pandemic emergency prior to the outbreak of Covid-19**
- (2) To acknowledge that the early reviews of both the Council's and the Local Resilience Forum's (LRF) Pandemic Flu plans showed they provided effective templates for the response phase;**
- (3) To note that an interim debrief of the response phase was held and arrangements adjusted but that a full debrief is yet to be held whilst the pandemic is ongoing, and**
- (4) That, on conclusion of any full debrief, the recommendations relevant to the Council be shared with this Committee for consideration**

## **11 Culture & Ethics**

Shail Shah, Head of Audit and Risk, introduced the report focusing on the Culture and Ethics within the council, particularly issues raised within the Non-Statutory Review and the Report in the Public Interest. Richard Henderson, Director of HR and Equalities, Diversity and Inclusion provided additional information. They highlighted the following points:

- (a) An audit of culture and ethics within a local authority has been challenging to complete. The audit programme was developed using guidance from the Chartered Institute of Internal Auditors and Grant Thornton Best Practice Toolkit;
- (b) Culture is a key workstream within the Recovery and Improvement plan and progress is being reviewed by the Recovery and Improvement Board;
- (c) Much of the work on culture in this report is looking backward at where the Council was, as highlighted within the Non Statutory Review and the Report in the Public Interest because fieldwork was undertaken in February and March and the Culture workstream had only just been established;
- (d) HR colleagues are playing a lead role in the review of culture and ethics. A number of different projects have been taking place to assess and review culture and ethics within the Authority;
- (e) A series of interviews of Council Staff from all levels within the structure has taken place establishing a sense of how each individual feels they fit within the organisation, their role in decision making and accountability.
- (f) A culture mapping exercise took place, based on the Goffee and Jones model, starting with an organisation wide questionnaire, focus groups and direct feedback from colleagues about how it feels to be part of the Authority and how colleagues view culture. One of the most striking points from this exercise was that colleagues felt the current appraisal process was a tick box exercise that failed to develop them;

- (g) A new appraisal processes has been developed and is being rolled out, initially to SLMG staff in June and then wider roll out over the summer. This will help to draw the Council Plan down into Departmental Plans and to individuals appraisal allows a sense that each individual has a part to play in achieving the goals of the Council;

Following discussion prompted by questions and comments from Committee members the following points were highlighted:

- (h) Measurement of improvements in Culture and Ethics can be difficult, however in the plan set out there are concrete deliverable actions that will show progress is being made. These include the roll-out of the new appraisal process, the rewrite of the constitution and its implementation, as well as compliance with other governance factors;
- (i) There are targets set for all managers to ensure that culture change continues to move in the right direction, particularly around behaviour management for managers to ensure equality in leadership across the authority;
- (j) It is likely that work on culture change will be ongoing for the long term. Wigan Council started a programme which is still ongoing 10 years from its start, however big steps have already taken place in Nottingham City Council, and the Recovery and Improvement Board will oversee the initial work over the next 3 years;
- (k) Committee members felt that this was a good and accurate report, but missed out the failure of senior officers to enact checks and balances and felt that it could have been more explicit in this. Concerns were expressed about the lack of a warning mechanism step before a Section 114 notice is issued, as a weakness in the Local Government framework;
- (l) Some Committee members felt the report did not go far enough, and that it is still unclear to Members who were not involved what went wrong, and that it is not possible to correct problems until they are fully understood;
- (m) Concerns were voiced that not all elected members are trained enough on corporate governance, and that the collective responsibility of a Committee System style of Council offered better transparency;
- (n) The voluntary sector is specifically mentioned in paragraph 1.7 of the appendix, this is not due to any specific concerns or additional risk, but as an example of the type of work completed;
- (o) The rewrite of the constitution aims to simplify and fortify the decision making process re-establishing boundaries between members, officers and their separate roles. The rewrite process is very near completion and should be ready for approval by the July deadline. It is planned that there is then a roll out period with training for officers and members as it is embedded;
- (p) Where limited assurance Internal Audit reports have been listed in the past, Committee members have picked some for further scrutiny and asked that the relevant management come to a later meeting for a closer examination. When time on the agenda allows for it this will be reinstated;

Committee members felt that a regular review of this item should come to the committee and felt that initially a 6 month review would be suitable.

**Resolved to**

- (1) require the findings of this report be used:**
  - a. As a framework for monitoring progress in rectifying the failures highlighted, particularly in paragraph 1.5 and 1.7 of the published appendix**
  - b. As a basis for training and information to support the necessary change in culture**
  
- (2) refer the report to both the Chairs of the Standards Committee and Overview and Scrutiny Committee and to Executive Panel to consider further action.**

**12 HR Annual Assurance**

Richard Henderson, Director of HR and Equalities, Diversity and Inclusion introduced the report on Equality and HR assurance. He detailed that the HR function had just under 80FTE staff, 45 performing corporate functions, and 35 aligned to Corporate Director posts. He highlighted the following points:

- (a) Absence rates have reduced from last years figures, the main cause of sickness absence this year had been mental health related. Costs attributed to sickness absence, not including agency cover, for 2020/21 were £4.4million, down from £5.4million for 2019/20;
- (b) GDPR requirements for processing and handling information relating to staff sickness are higher. The team work closely with information compliance to ensure secure processes are in place;
- (c) The Council published the Gender Pay Gap for 2020 despite a pause on the requirement to do so, the 2021 pay gap report has also been published, earlier than required. The council is publishing an Ethnicity Pay Gap report and a Disability Pay Gap report this year for the first time. There is no requirement for these reports to be published;

During discussion the following points were highlighted:

- (d) 230 people have been made redundant over the past 12 months, over 215 of them through the voluntary redundancy scheme. There has been the usual and expected turn over of frontline staff, however it is recognised that the most noticeable changes have happened within the Corporate Leadership team;
- (e) The absence levels reported are not out of kilter with other, comparable organisations. As a Local Authority Nottingham City Council does offer a generous provision, however there is a clear policy of sickness management and the process and support available is made clear to managers. Support for mental health sickness includes access to counselling services, and regular wellbeing checks;

- (f) Sickness absence rates are discussed departmentally and there is a lot of analysis work that goes into reporting around the rates and reasons;
- (g) The committee requested further feedback around the demographic of staff within the organisation, to include a breakdown of all protected characteristics and how/where they intersect within the workforce;
- (h) Committee members wanted a refreshed look at tackling sickness absence. There are a number of initiatives currently being run but it is a difficult figure to improve as is seen across other comparative organisations. A committee member advised the committee that they would make contact with the relevant Portfolio Holder around investing in work to reduce sickness absences and associated costs and would feed back when possible;

### **Resolved to**

- (1) Note the work being done within the division to ensure the Council's statutory and non-statutory obligation relating to people management and equities are being met and / or progressed.**

### **13 Audit Committee Terms of Reference**

Shail Shah introduced the Audit Committee terms of Reference to the Committee. He advised that this is a statutory annual report to the committee for noting.

Councillors commented that at the time the TOR are next updated that they should include working around monitoring the implementation of agreed actions to ensure that reports to the committee are effective.

The Chair asked the Action Log be more actively updated to allow the committee to monitor actions arising from the meetings;

**Resolved to note the role and functions of the Audit committee as set out in the Terms of Reference, which comply with best practice in the 2018 revision of CIPFA guidance on Audit Committees (the 2018 Guidance), including the additional elements prescribed by the Public Sector Internal Audit Standards (PSIAS)**

### **14 Future meeting dates**

Resolved to meet on the following Fridays at 10.30am

30 July 2021

24 September 2021

28 October 2021

26 November 2021

25 February 2021

### **15 Exclusion of the public**

The Committee decided to exclude the public from the meeting during consideration of the remaining agenda 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 outweighed the public interest in

disclosing the information, as defined in Paragraph(s) 3 of Part 1 of Schedule 12A to the Act.

## **16 Exempt Minutes**

The Committee confirmed the exempt minutes of the meeting held on 26 March 2021 as a true record and they were signed by the Chair.

## **17 Companies Governance Update**

Ian Edward, Strategic Advisor on Companies, gave an update to the Committee on the Companies Governance workstream. After discussion, as set out in the exempt minutes, the committee noted the progress of work against the Recovery and Improvement Plan.

**Audit Committee Work Programme & Action Log**  
**Proposed Work Programme**

Key - *Italicised* items for noting, remainder for discussion

**2021**

**Jul**

- Financial Accounts Training tbc  
Draft Statement of Accounts 2020-21 & Interim AGS 2020-21  
Treasury Management Annual Report  
*IA Annual Report & Opinion including Counter Fraud Strategy  
& Whistleblowing Policy*

**Sep**

External Audit Report 2019-20  
Statement of Accounts 2019-20 & Final AGS 2019-20  
Audit Committee Annual Report  
*Customer Experience/Complaints  
& Ombudsman Annual Assurance*  
*EMSS Annual Report*

**Oct**

*Council Plan & Corporate Performance Assurance*  
Limited Assurance Internal Audit Report:  
Client update on progress  
*Internal Audit PSIAS Self-Evaluation and Scope for Peer Review*

**Nov**

External Audit Report  
Statement of Accounts 2020-21 & Final AGS 2020-21  
Recovery & Improvement Plan Process Update  
Companies Governance Sub-Committee Update  
Treasury Management Half Year Report  
Corporate Risk Update  
Culture & Ethics Update  
*Internal Audit Update*

**Feb / Mar 2022**

Recovery & Improvement Plan Process Update

Treasury Mgt Strategy & Capital Strategy  
AGS Process 2021-22 and 2020-21 AGS update  
Non-Executive Amendments to the Constitution  
SEND Annual Assurance Monitoring 2021/22  
*Annual Information Compliance Assurance*  
*Internal Audit Update*  
*Review of Accounting Policies 2020/21*

**May 2022**

Corporate Risk Update  
Companies Update  
*Health & Safety Annual Assurance*  
*HR & EDI Assurance*

### Action Log

Date of meeting	Issue	Action taken	Target Date	RAG Rating
25 Sep 20	Training 2019-20 AGS	Accounts training Jun tbc	July	
		To be considered as part of finalisation process and final report expected July 2021	July	
26Feb21	Ombudsman / SEND	Audit committee to receive as a one-off in 21/22 SEND Annual Assurance Monitoring	February 2022	
26Mar21	Recovery & improvement Plan	Observations of Improvement & Assurance Board to be provided to Risk & Assurance working group Risk & Assurance Working group feedback on Recovery & Improvement Board risk Register and proposal for feedback, critique, observations and recommendations on recommendations made by the Improvement Board to the Council	July	
28May21	Companies	Presentation on governance principles to be circulated to committee members	June	
	Companies	Shareholder unit terms of reference to include receiving group companies' accounts in line with group timetables	July	
	HR & EDI Assurance	Cllr Lakey to email portfolio holder for Finance & Resources regarding resources for addressing Sick Leave	July	
	Culture & Ethics	Audit Committee to receive update from Overview & Scrutiny, Standards Board and Executive Panel regarding Culture & Ethics	November	

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**Audit Committee – 30 July 2021**

<b>Title of paper:</b>	Treasury Management 2020/21 Annual Report	
<b>Director(s)/ Corporate Director(s):</b>	Clive Heaphy, Corporate Director of Finance & Resources and S151 Officer	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Glyn Daykin, Senior Accountant – Treasury Management Tel: 0115 8763724	
<b>Other colleagues who have provided input:</b>	Members of Treasury Management Panel: Clive Heaphy, Corporate Director of Finance & Resources Theresa Channell, Head of Strategic Finance Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader Glyn Daykin, Senior Accountant – Treasury Management	
<b>Recommendation(s):</b>		
<b>1</b>	To note the performance information in relation to Treasury Management for 2020/21.	

**1 Executive Summary**

The Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices. The 2020/21 Treasury Management Strategy was approved by Full Council on 9 March 2020. This report sets out details of treasury management actions and performance from 1 April 2020 to 31 March 2021. The key points are:-

- the balance of external loan debt decreased by £141.8m to £932.7m, with a corresponding increase to the level of internal borrowing (see section 4.3);
- the average rate of interest payable on the debt portfolio increased from 3.138% at 31 March 2020 to 3.379% at 31 March 2021 (see section 4.3);
- the average rate of interest earned on short-term investments in 2020/21 was 0.383%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged -0.071% for the same period (see section 4.7);
- the actual General Fund Treasury Management expenditure budget was £84.758m (see section 4.12);
- there were no breaches of the Prudential Indicators in 2020/21 (see section 4.9);
- PWLB rates reduced for new loans and the HM Treasury have published new PWLB lending arrangements which prohibit capital expenditure on 'debt for yield' schemes (see section 4.13.1).  
CIPFA released their proposed changes to the Prudential Code and Treasury Code for consultation with updated guidance expected to be issued by the end of 2021 (see section 4.13.2).

**2 Reasons for recommendations**

- 2.1 To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year.

- 2.2 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. In undertaking this function, the Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices.

### **3 Background**

#### **3.1 Capital Strategy**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

#### **3.2 Treasury Management**

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 3.3 The primary reporting requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. Receipt by Executive

Board of a Mid-year Review Report and an Annual Report, covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

3.4 This annual report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2020/21 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

#### **4 Treasury Management Activity in 2020/21**

4.1 The UK Economy, Growth, Monetary Policy and Inflation:

4.1.1 The outbreak of the Coronavirus led to the first national lockdown in late March 2020 and resulted in an economic downturn that exceeded the one caused by the financial crisis of 2008/09. The advent of vaccines starting in November 2020 has laid the foundations hopefully to lead to a return to something approaching normal life during the second half of 2021. This has been instrumental in the reopening of the economy and for the UK economy be forecast to recover its pre-pandemic level of economic activity during quarter 1 of 2022.

The Monetary Policy Committee (MPC) cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn increase in the programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields) which was again increased several times later in the year totalling £895bn by November. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; although this was firmly discounted at the February 2021 MPC meeting based on signs of a faster paced economic recovery.

Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but be a temporary short lived factor and so is not currently a concern to the MPC.

4.1.2 Government Support: The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit significantly increasing in 2020/21 and 2021/22 so that the Debt to GDP ratio is expected to reach around 100%.

**Appendix 3** shows the money market interest rates and the Public Works Loans Board (PWLB) borrowing rates for 2020/21.

## 4.2 Local Context

4.2.1 During 2020-21 the Government commissioned a non-statutory review of the Council with the findings published on the 17th December. The published review highlighted the level of risk and the planned further borrowing within the capital programme, the high level of debt held by the Council and the reduction in the balances of reserves held which further reduces budget flexibility.

Following the review, the Council has published the Nottingham City Council Recovery & Improvement Plan 2021 – 2024; which directed a review of the 2021-22 Capital Strategy and Treasury Management Strategy with the aim to support the Council returning to financial and operational stability. The borrowing and debt management strategies are to reduce the Council's future requirement to borrow, known as the Capital Financing Requirement (CFR), and reduce the level of debt held by the Council. These strategies were approved by Full Council on 9 March 2021.

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources based on robust financial modelling, the capital expenditure will give rise to a borrowing need, however this route is strictly limited by the Capital Strategy.

4.2.3 The CFR is a gauge of the Council's indebtedness and results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

At 31 March 2021 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,411.2m.

Table 1 below shows the original and the actual financing arrangements of the capital programme. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need will also be increased by maturing debt and other treasury requirements.

<b>TABLE 1: CAPITAL EXPENDITURE</b>	<b>2020/21 Original Estimate £m</b>	<b>2020/21 Mid-year Estimate £m</b>	<b>2020/21 Actual £m</b>
Total capital expenditure	218.513	230.021	149.969
Financed by:			
Capital receipts	20.107	24.278	11.930
Capital grants & Contributions	43.833	66.359	37.119
Internal Funds / Revenue (inc. Major Repairs Reserve)	37.902	31.907	19.168
Total financing	101.842	122.544	68.217
Borrowing requirement	116.671	107.477	81.752

Note to table: Original estimate was Q3 2019/20 used for the 2020/21 Treasury Management Strategy Report.

As part of the Recovery & Improvement Plan the council undertook full review of its capital programme and the early impact of the review and the changes to the Capital Strategy including a Debt Reduction Policy are reflected in the table above.

The reduction in capital expenditure against previous estimates has multiple elements, a reduction of forecast spend due to the review of capital program including the delay/cancellation of some major schemes, slippage of planned 2020/21 expenditure into 2021/22 and an element of increased expenditure against the original forecast due to slippage on capital projects that had expenditure originally forecast to have been incurred in 2019/20. The associated financing of the slippage schemes that remained in the program has been moved from 2019/20 to the 2020/21 and from 2020/21 to 2021/22.

4.2.4 The Council's 2020/21 strategy was to maintain an under-borrowed position and continue to utilise short term loans at low interest rates. During 2020/21 the capital program was reviewed which led to major schemes being delayed or removed which is reflected in the capital spend for the year and the lower than forecast borrowing requirement for the year.

The 2020/21 cash position was higher than forecast on the receipt of Government Covid support grants and there was a major downward change in the economic forecast and forecast interest rates following the Covid 19 outbreak and so further long term borrowing was delayed whilst available cash balances were utilised.

### 4.3 Borrowing

4.3.1 To finance the CFR (the Capital Financing Requirement), the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing), utilising cash balances not immediately needed for services. The balance of external and internal borrowing is generally driven by market conditions.

4.3.2 During 2020-21, the Council published a Recovery & Improvement Plan (RIP) and completed a full review of the capital program and Capital Strategy with a view to reducing the CFR and debt balances going forwards. To support the aims of the RIP

and as a response to the change in forecast interest rates maturing loans were repaid without replacement during the year and the existing under-borrowed position was increased. This meant that the capital borrowing need, was not fully funded with external loan debt. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

- 4.3.3 Total outstanding loans debt in 2020/21 decreased by £141.8m to £932.7m as at 31 March 2021. The total long term debt decreased by £26.3m and the temporary borrowing decreased by £115.5m as at 31 March 2021. The portfolio at April 2020 included short term loans taken to manage liquidity risk due to outbreak of Covid 19. These were repaid following the Covid 19 related Government support payments that removed the liquidity risk. The average rate of interest on total loan debt increased, from 3.138% at 31 March 2020 to 3.379% at 31 March 2021 due to repayment of the temporary borrowing element of the portfolio, at the same time the long term debt average rate continued to decrease. **Table 2** below analyses the debt portfolio:

<b>TABLE 2: DEBT PORTFOLIO</b>					
	<b>01-Apr-20</b>		<b>31-Mar-21</b>		<b>Movement</b>
<b>DEBT</b>	<b>£m</b>	<b>Average Interest %</b>	<b>£m</b>	<b>Average Interest %</b>	<b>£m</b>
PWLB borrowing	892.8	3.399	866.5	3.387	-26.3
Market loans inc LOBO	49.0	4.348	49.0	4.348	0
Temporary borrowing & other	132.7	0.933	17.2	0.219	-115.5
<b>TOTAL LOANS DEBT</b>	<b>1,074.5</b>	<b>3.137</b>	<b>932.7</b>	<b>3.379</b>	<b>-141.8</b>
Other inc PFI	191.4		181.3		-10.1
<b>TOTAL DEBT</b>	<b>1,265.9</b>		<b>1,114.0</b>		<b>-151.9</b>

- 4.3.4 In 2020/21 the Council did not take any further long term borrowing from the Public Works Loans Board (PWLB). The HRA borrowed a further £16m maturity loan for 30 years fixed at 2.55% from the General Fund.

- 4.3.5 Following the liquidity issues in February – April 2020, the local authority temporary loan market became extremely liquid and affordable as the Government Covid support packages were announced and cash was distributed to the local economy much of this via local authorities.

As a result the need for new borrowing was reduced. In 2020-21 £136.5m of new loans were borrowed at an average rate of 0.246% and an average life of 100 days this total includes the replacement of maturing loans. The Council's outstanding balance of temporary loans has decreased by £115.5m with the debt portfolio showing £17.2m outstanding as at 31 March 2021.

The reduction in temporary loans reflects the maturing loans being repaid without replacement during the second half of the year as Covid related cash flows including reductions in council income streams began to be clearer and forecasted for the coming months.

- 4.3.6 The Council's under-borrowed position has increased by £181.4m in 2020-21 as borrowing has been repaid upon maturity without replacement. The majority of this

was the short-term term borrowing taken and used/held for liquidity at the end of the last financial year to mitigate liquidity risks caused by Covid 19.

The Internal Borrowing as at 31 March 2021 was £297m. This meant that c.24% of the overall capital borrowing need including prior year capital expenditure, but excluding PFI liabilities (known as the Underlying Borrowing Requirement or Loans Capital Financing Requirement), was not funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure. This strategy was prudent as new investment returns were extremely low and counterparty risk was still an issue that needed to be considered.

The strategy of using internal borrowing avoids interest payable on external borrowing in the short term until actual new borrowing is taken or the borrowing requirement reduces (reducing CFR) for example £300m borrowing would cost around £7m per year using an interest rate of 2.33% and a 25 year maturity loan profile (2.33% was average PWLB rate for 2020-21 for 25 years loans which broadly represents the debt portfolio's weighted average life).

4.3.7 **Appendix 3** shows the Money Market and borrowing interest rates during 2020/21. The global outlook for growth now also looks to be weakened but has started to recover as the long term economic impact of Covid 19 is beginning to unfold. Treasury yields fell sharply during 2020-21 and gilt yields / PWLB rates also fell and are expected to rise gradually in 2021-22.

4.3.8 The interest equalisation reserve has been maintained to mitigate the risk of unexpected rises in interest rates with c.£8.4m ring-fenced to smooth the impact of further increasing the proportion of fixed rate long term loans and/or reducing the internal borrowing position.

#### 4.4 Lender Option Borrower Option (LOBOs)

4.4.1 The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £19.000m of these LOBO loans had options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4.4.2 The council previously held LOBO loans with Barclays Bank, but in 2016/17 the Bank cancelled all the embedded options within the loans. This effectively converted the £15m of Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date.

#### 4.5 Debt Rescheduling

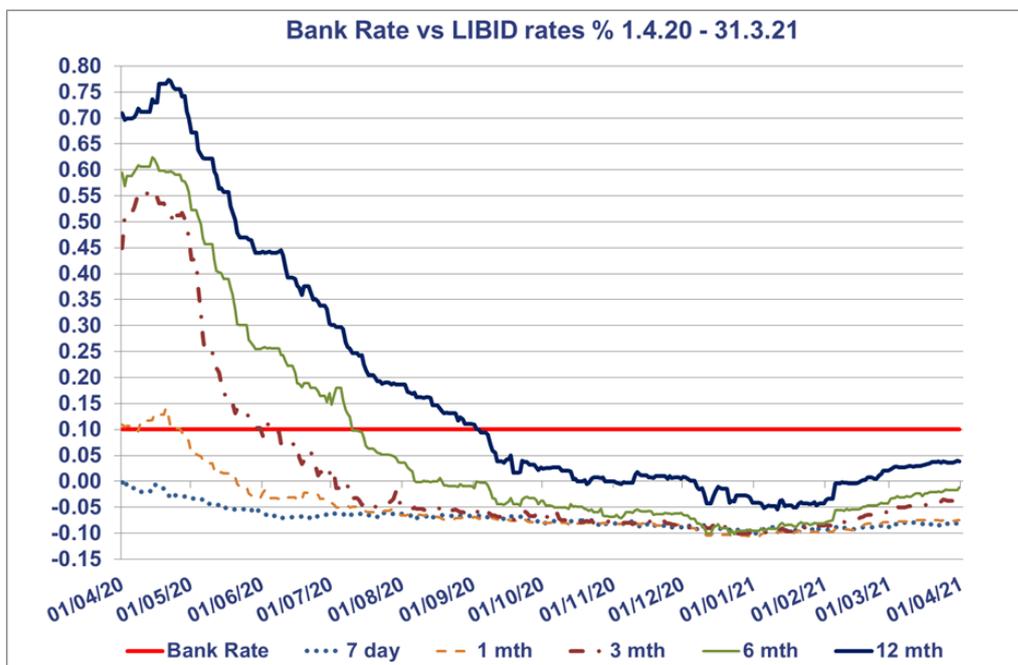
4.5.1 The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt made rescheduling unviable for the loans in the Council's portfolio. No rescheduling activity was undertaken as a consequence.

#### 4.6 Housing Revenue Account (HRA) Borrowing

- 4.6.1 From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. Based on a forecast HRA CFR the HRA fixed £16m of new long term fixed rate borrowing from the General Fund. This loan is fixed for 30 years at 2.55% (based on the equivalent PWLB loan rate at 01 April 2020) with a full year interest cost of £0.408m per annum. By using long term fixed rate loans the HRA gains cost certainty and removes the exposure to increases in long term interest rates for the borrowing requirement in the HRA CFR.
- 4.6.2 The HRA element of the CFR was £298.0m as at 31 March 2021 and is fully financed at an average rate of 4.49%. This includes £53.161m of long term fixed rate loans from the General Fund (known as internal loans). The HRA interest charge for 2020/21 was £13.4m.
- 4.6.3 In October 2018 the Government announced the HRA debt cap was to be abolished, but the now notional cap has been retained as a useful indicator shown in **Appendix 1**. Any capital expenditure financed by borrowing would need to comply with the requirements of the CIPFA prudential code including ensuring the scheme was affordable, sustainable and in proportion to the resources available.

#### 4.7 Investments

- 4.7.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.
- 4.7.2 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.



4.7.3 The council has had increased cash and investment balances during 2020/21 averaging £135.6m as Covid related Government grants were received and used/distributed throughout the year.

The council has continued to limit its exposure to bank credit risk by using short term bank notice accounts and utilising highly diverse and liquid money market funds. During the year the investment portfolio benefited from existing longer term deposits placed with other local authorities prior to 2020/21 at fixed interest rates however these are gradually maturing during 2021/22 & 2022/23 with much lower rates now on offer.

4.7.4 The Council held £150.6m of investments as at 31 March 2021 (£129.0m at 31 March 2020) and the investment portfolio yield for the year was 0.383% against a benchmark (Average 7-day LIBID) of -0.071%. The negative average 7-day London interbank bid rate (LIBID) is a reflection of the recent fall into negative territory for very short term deposits. LIBID as benchmark is likely to be replaced with sterling overnight index average % (SONIA) in 2021 with details to be provided once they are available.

**Table 3** below summarises investment activity in 2020/21.

<b>Table 3 - Investment Activity for 2020/21</b>	Balance on 01/04/2020 £m	Balance on 31/03/2021 £m	Avg Rate / Yield (%) Avg days to maturity as at 31/03/2021
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- or higher	20.0	20.0	0.28% / 109
- Local Authorities	25.0	85.0	0.22% / 83
Long term Investments	10.0	10.0	0.63% / 410
Money Market Funds	74.0	35.6	0.03% / 1
<b>TOTAL INVESTMENTS</b>	<b>129.0</b>	<b>150.6</b>	<b>0.21% / 89</b>
- Increase/ (Decrease) in Investments £m		21.6	

4.7.5 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.

4.7.6 The investment activity during the year remained within the approved limits in the Investment strategy for 2020/21.

4.7.7 **Appendix 2** provides details of the Council's external investments at 31 March 2021, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.

#### 4.8 External advisors

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

4.8.2 The council has retained Link Group as its treasury management advisors.

#### 4.9 Compliance with Prudential Indicators

4.9.1 The Council confirms compliance with its Prudential Indicators for 2020/21 set on 9 March 2020 as part of the Council's Treasury Management Strategy Statement. The Prudential Indicators can be found in **Appendix 1**.

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

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

	2019/20 £m	2020/21 £m	2021/22 £m
Upper limit on variable interest rate exposure	300	350	300
Actual	168.9	48.1	

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

	Lower	Upper	Actual
Under 12 months	0%	25%	4%
12 months and within 24 months	0%	25%	3%
24 months and within 5 years	0%	25%	8%
5 years and within 10 years	0%	25%	16%
10 years and within 25 years	0%	50%	7%
25 years and within 40 years	0%	50%	31%
40 years and above	0%	50%	31%

4.9.5 **Principal Sums Invested for Periods Longer than 365 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:

	2019/20 £m	2020/21 £m	2021/22 £m
Limit on principal invested beyond year end	100	100	100
Actual	10	10	

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

	2020/21 Original Estimate £m	2020/21 Max Debt In year £m
Borrowing	1,112.8	1,074.5
Other Long-term Liabilities *	181.8	191.4
Total External Debt	1,294.6	1,265.9
Operational Boundary	1,521.9	
Authorised Limit	1,551.9	

\* Includes PFI and Leases liabilities

#### 4.10 Treasury Management Reserve

4.10.1 The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year including new technical accounting entries relating to IFRS 9 (which stipulates the treatment of expected loss model based impairments on Treasury related investments and capital investments such as loans to third parties and financial guarantees).

A reserve is maintained for interest equalisation specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated including the unwinding of internal borrowing position detailed in section 4.3.

There was a total of **£7.866m** of transfers to reserves relating to treasury management activity. The balance on these reserves at 31 March 2021 is **£20.163m**. There was **£4.024m** budget transfer to the MRP Transformation of Services reserve as part of the planned transfer as per the prior year decision to change MRP policy.

In 2020/21 further technical adjustments totalling £16.467m were made to account for the annual impairment review on non-treasury investments and financial guarantees as at 31 March 2021 under the IFRS 9 requirements.

There was no expected loss impairment made to treasury investments.

#### 4.11 Risk Management

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

4.11.2 The treasury management risk register's overall risk rating at 31 March 2021 was 6.58, Likelihood = possible, Impact = moderate is the same rating as at 31 March 2020 and remains over targeted risk rating. The risk rating reflects risks around the impacts of Covid 19, the working from home arrangements and the changes to the PWLB lending arrangements. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

#### 4.12 General Fund Revenue Implications

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

4.12.2 The General Fund outturn in 2020/21 for treasury management costs was £84.758m comprising of interest charges less receipts, provisions for the repayment of debt, IFRS 9 expected loss allowances and PFI related expenditure. A proportion of the Council's debt relates to capital expenditure on council housing and £13.397m of these costs was charged to the HRA. The PFI expenditure accounted for £29.926m which includes the NET lines 1 & 2.

The General Fund costs of £84.758m gave a nil variance which is included within the General Fund Corporate Budget Outturn Report on the 20 July 2021 Executive Board agenda.

#### 4.13 Other Issues

4.13.1 HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9<sup>th</sup> October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11<sup>th</sup> March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25<sup>th</sup> November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of

England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

4.13.2 CIPFA have released proposed changes to the current Treasury Management Code and Prudential Code. Both sets of proposed changes were subject to a period of consultation which closed on 12th April 2021, with a planned publication of the revised guidance expected towards the end of 2021. There will be a requirement to apply the principles from the publication date with full adoption expected from 2022/23.

The Treasury Management Code key proposals – update to the Treasury management practices (TMP) TMP10 training requirements; TMP 12 Corporate Governance; TMP13 Environmental, Social and Governance and amendments to Maturity Structure of Borrowing indicator.

The Prudential Code key proposals – revision to Borrowing in Advance of Need criteria, including in respect of primarily yield generating investments; inclusion of proportionality in key capital expenditure objectives; process and governance sections to incorporate further changes in respect of commercial activity; three new prudential indicators – External Debt to Net Revenue Stream (NRS), Income from Commercial and Service Investment to NRS, Liability Benchmark; Proposal to abolish Gross Debt to Capital Financing Requirement indicator.

The implications of the revised guidance once published will be reported to councillors at the next opportunity.

## **5 Background papers other than published works or those disclosing exempt or confidential information**

5.1 None.

## **6 Published documents referred to in compiling this report**

- 6.1 Treasury Management Strategy 2020/21 and Capital Investment Strategy 2020/21
- 6.2 Treasury Management Strategy 2021/22 and Capital Investment Strategy 2021/22
- 6.3 Nottingham City Council Recovery & Improvement Plan
- 6.4 Money Market and PWLB loan rates
- 6.5 Treasury Management in the Public Services Code of Practice 2017–CIPFA
- 6.6 Prudential Code 2017-CIPFA
- 6.7 Treasury Management in the Public Services Guidance Notes 2018 – CIPFA
- 6.8 Statutory guidance on local government investments 3rd Edition 2018
- 6.9 Statutory guidance on Minimum Revenue Provision (MRP) 2018

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PRUDENTIAL INDICATORS

Appendix 1

INDICATORS	2019/20 Actual	2020/21 Estimate	2020/21 Outturn
<b>1) Prudence indicators</b>		Per TMSS 20/21	
<b>i) Capital Expenditure</b>			
General Fund	£127.9m	£158.9m	£112.5m
HRA	£43.8m	£59.6m	£37.5m
	<b>£171.7m</b>	<b>£218.5m</b>	<b>£150.0m</b>
<b>ii) CFR at 31 March</b>			
General Fund	£898.1m	£1,027.3m	£931.9m
HRA	£292.5m	£312.8m	£298.0m
PFI notional 'debt'	£191.4m	£181.8m	£181.3m
	<b>£1382.0m</b>	<b>£1,521.9m</b>	<b>£1,411.2m</b>
<b>iii) External Debt at 31 March</b>			
Borrowing	£1,074.5m	£1,112.8m	£931.9m
PFI & leasing notional 'debt'	£191.4m	£181.8m	£181.3m
<b>Gross debt</b>	<b>£1,265.9m</b>	<b>£1,294.6m</b>	<b>£1,114.1m</b>
Less investments	£(129.0)m	£(71.9)m	£(150.6)m
<b>Net Debt</b>	<b>£1,136.9m</b>	<b>£1,133.4m</b>	<b>£963.5m</b>
<b>2) Affordability indicators</b>			
<b>i) Financing costs ratio</b>			
General Fund	16.66%	17.97%	17.63%
General Fund (Inc PFI costs)	25.81%		27.25%
HRA	13.60%	14.43%	14.06%
	<b>Max in year</b>		<b>Max in year</b>
<b>ii) Authorised limit for external debt</b>	£1,265.9m	£1,551.9m	£1,265.9m
<b>iii) Operational limit for ext. debt</b>	£1,265.9m	£1,521.9m	£1,265.9m
<b>iv) HRA limit on indebtedness</b>			
HRA Debt Cap (abolished)	£319.8m	£319.8m	£319.8m
HRA CFR	£292.5m	£312.8m	£298.0m
<b>3) Treasury Management indicators</b>			
<b>i) Limit on variable interest rates</b>	£168.9m	£350.0m	£48.1m
<b>ii) Fixed Debt maturity structure</b>			
- Under 12 months	14%	0-25%	4%
- 12 months to 2 years	2%	0-25%	3%
- 2 to 5 years	8%	0-25%	8%
- 5 to 10 years	14%	0-25%	16%
- 10 to 25 years	8%	0-50%	7%
- 25 to 40 years	23%	0-50%	31%
- 40 years and above	31%	0-50%	31%
	<b>Max in year</b>		<b>Max in year</b>
<b>iii) Max sum invested for &gt;365 days</b>	£0m	£100.0m	£10m

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

## 1) Prudence Indicators

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

## 2) Affordability Indicators

- i) *'Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes revenue raised from the Workplace Parking Levy.
  - These indicators show the impact of borrowing on the revenue accounts and enable a comparison between years to be made. The increase in the General Fund ratio reflects the falling grant from government and the impact of the extension of the NET capital scheme, funded from specific Government grant and the Workplace Parking Levy income streams.
- ii) *'Authorised limit for external debt'* – this represents the maximum amount that may be borrowed at any point during the year.
  - This figure allows for the possibility that borrowing for capital purposes may be undertaken early in the year, with a further sum to reflect any temporary borrowing as a result of adverse cash flow. This represents a 'worst case' scenario.
- iii) *'Operating boundary for external debt'* – this indicator is a working limit and represents the highest level of borrowing is expected to be reached at any time during the year - It is recognised that this operational boundary may be breached in exceptional circumstances.

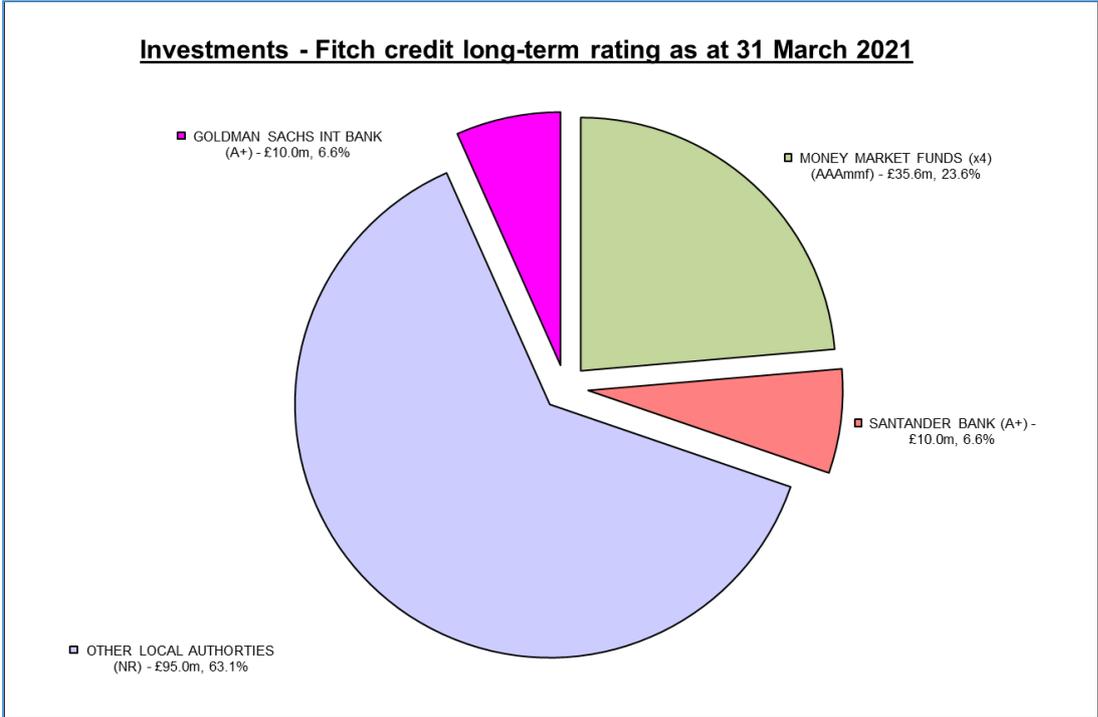
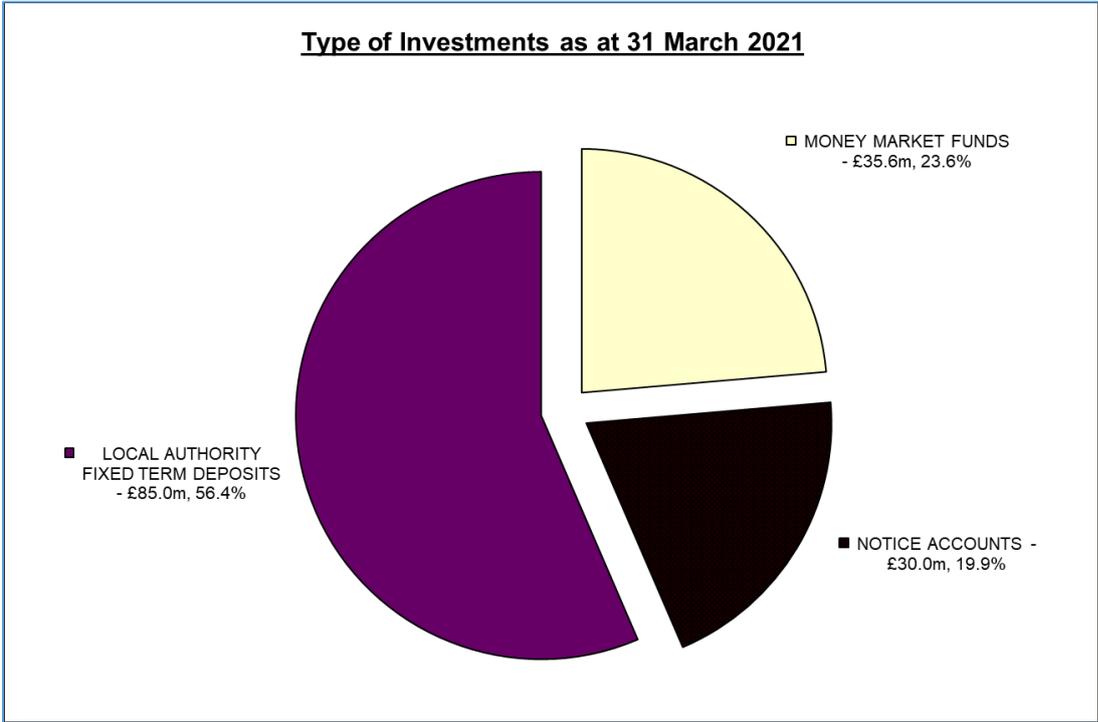
- iv) *'HRA limit on indebtedness'* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The MHCLG have now abolished the 'cap' on the maximum level of HRA debt, but this indicator shows the notional difference between this limit and the actual HRA CFR i.e. notional headroom 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 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 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.
- iii) *'Total sums invested for periods of greater than 365 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.

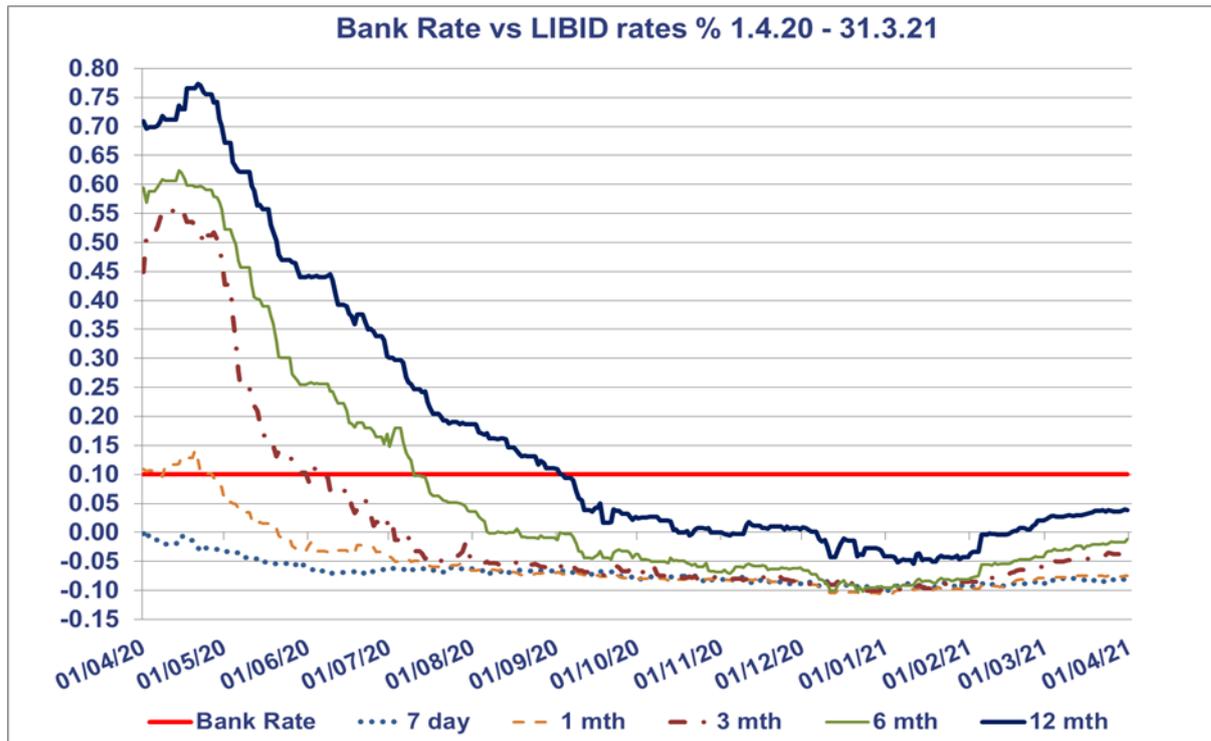
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Investments Credit Risk



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Money Market Interest Rates, PWLB rates in 2020/21 & Forecast at 31/03/21



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

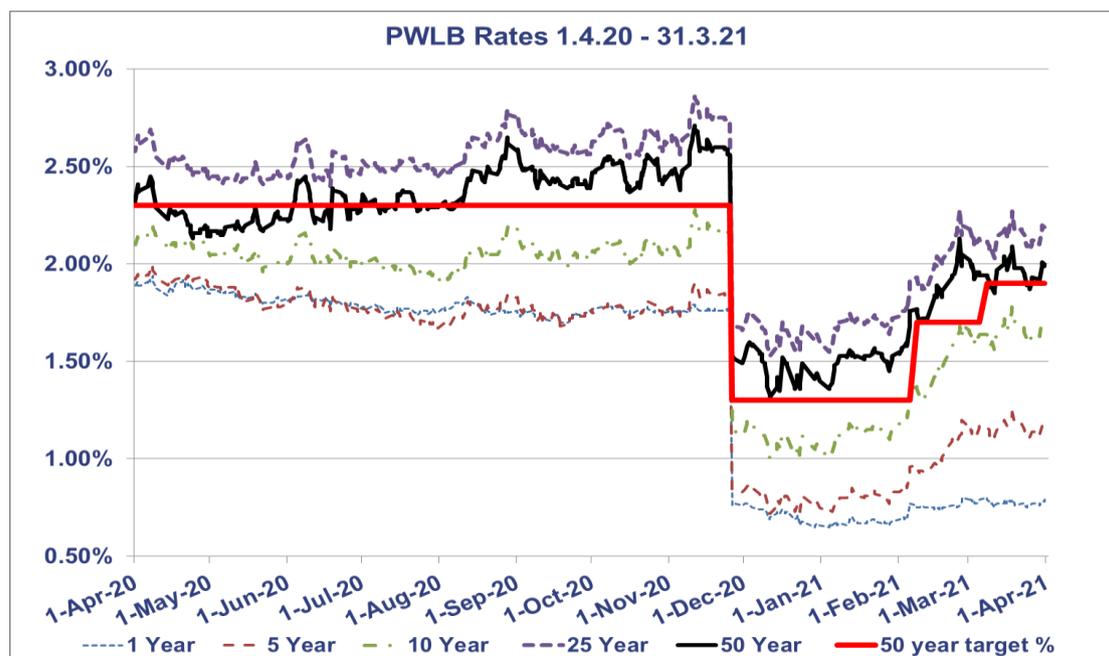
To show the change in market expectations the forecast outlook for money market interest rates and PWLB Certainty rates dated 31.01.2020 used in the Treasury Strategy for 2020-21 are shown below followed by the forecast at 31.03.2021. which show forecast rates have significantly reduced – Bank rate now 0.10%.

31.1.20

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

Link Group Interest Rate View 8.3.21													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

The graph and table below show the actual 2020/21 PWLB rates.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%

HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019/20** without any prior warning. The first took place on 9<sup>th</sup> October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11<sup>th</sup> March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25<sup>th</sup> November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates**; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

**Audit Committee - 30 July 2021**

<b>Title of paper:</b>	Internal Audit Annual Report 2020/21	
<b>Director(s)/ Corporate Director(s):</b>	Clive Heaphy Corporate Director Finance and Resources	<b>Wards affected: All</b>
<b>Report author(s) and contact details:</b>	Shail Shah Head of Audit and Risk 0115 8764245 shail.shah@nottinghamcity.gov.uk	
<b>Other colleagues who have provided input:</b>		
<b>Recommendation(s):</b>		
<b>1</b>	<p>Note the following as detailed in Appendix 1</p> <ul style="list-style-type: none"> <li>• The audit work completed during the year, including the use of other sources of assurance and reliance upon those other sources.</li> <li>• The Head of Audit and Risk's Annual Opinion</li> <li>• Note the proposed Audit Plan for 2021/22</li> </ul>	
<b>2</b>	Approve the Internal Audit Charter in Appendix 2	
<b>3</b>	Note the Counter Fraud Strategy in Appendix 3	

**1 Reason For Recommendations**

- 1.1 This report outlines the work of the Internal Audit (IA) service to the end of the fourth quarter of 2020/21. The report includes the Head of Audit & Risk's annual opinion on the effectiveness of the internal control systems operating within the City Council and its significant partnerships and the Audit Charter.
- 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 incorporate the requirements of the Public Sector Internal Audit Standards (PSIAS).
- 1.4 The PSIAS require the responsibility for the management of Internal Audit to be set with the Board. In practical terms, this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City Council.
- 1.5 The PSIAS require the Head of Audit & Risk to deliver an annual audit opinion and report that can be used to inform the Annual Governance Statement.
- 1.6 This report supports the Audit Committee in fulfilling its terms of reference including Public Sector Internal Audit Standard (PSIAS) duties
- 1.7 This report seeks endorsement of the City Council's Counter Fraud Strategy (CFS).

## **2 Background**

- 2.1 The Internal Audit service impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes and is an important part of the Council's governance and control framework.
- 2.2 The coverage set out in the 2020/21 Internal Audit Plan has been substantially achieved and key Performance Indicator targets have been met.
- 2.3 The assurance gained from this activity together with that gained from a review of other control and assurance mechanisms, has enabled the Head of Audit & Risk to give a limited assurance that the internal control systems are operating effectively within the Council and its significant partnerships.
- 2.4 Good governance policies and procedures are essential when allocating and controlling Council resources and supporting effective delivery of the Council's strategic and operational objectives.
- 2.5 A cornerstone of the Council's governance policies is the CFS, which brings together the key strands of governance into an overarching strategy document. The maintenance and embedding of a counter fraud culture is essential if the Council is to maximise the use of its resources and minimise waste through inefficiency and/or fraudulent activity.
- 2.6 An effective CFS provides the basis for developing a counter fraud culture in the Council and, as part of the Council's control system, the elements of the CFS contribute positively to the assurance received by the Committee in respect of the effectiveness of the control environment.
- 2.7 The CFS is the main strategy statement geared towards protecting public funds and assets by requiring compliance with regulations, rules, procedures and guidelines designed to promote the highest standards of conduct and behaviour.
- 2.8 The changes to the strategy and response plans include a general update and clarifications in terms of roles and responsibilities.
- 2.9 The CFS will continue to evolve and develop to reflect changes in legislation and best governance practice.

## **3 Background Papers Other Than Published Works Or Those Disclosing Exempt Or Confidential Information**

- 3.1 None

## **4 Published Documents Referred To In Compiling This Report**

- Accounts and Audit Regulations 2015
- Audit Plan 2020/21
- CIPFA SOLACE Delivering Good Governance in Local Government
- Public Sector Internal Audit Standards 2017

# NOTTINGHAM CITY COUNCIL

## INTERNAL AUDIT ANNUAL REPORT AND OPINION

### 2020/21

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Date: 30 July 2021

#### Contents

1. Introduction
  2. Head of Internal Audit Opinion
  3. Basis of Opinion
  4. Quality Assurance & Improvement Plan
  5. Internal Audit Plan 2021-22
- 
- Appendix A List of Final Audit Reports Issued Q4
- Appendix B Executive Summaries Q4 Audit Reports
- Appendix C Internal Audit Plan 2021-22
- Appendix D Final Reports Issued 2020-21
- Appendix E External Assurances
- Appendix F Levels of Assurance Definitions & Classification of Internal Audit Recommendations

## 1. Introduction

### Internal Audit and the Annual Reporting Process

1. Under the Accounts and Audit Regulations 2015 (See Box) the Council has a duty to maintain an effective internal audit of its risk management, control and governance processes. The Public Sector Internal Audit Standards (PSIAS) are the mandated professional standards for internal audit in local government and govern the work undertaken by the Internal Audit Service.
2. The PSIAS sets out the requirement for the Chief Audit Executive to provide an annual internal audit report with an overall opinion that can be used by the organisation to inform its governance statement. The Internal Audit Charter and the Council's Financial Regulations re-inforce this requirement. The role of Chief Audit Executive has been assigned to the Head of Audit and Risk at Nottingham City Council.
3. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The opinion must be supported by sufficient, reliable, and relevant information.
4. The following report provides a summary of the internal audit activity undertaken throughout the year and seeks to provide an objective assessment of the control environment to support the annual internal audit opinion. This report has been produced by the Head of Audit and Risk who is responsible for the Internal Audit (IA) and Corporate Fraud teams.

#### The Accounts and Audit Regulations 2015

##### Internal audit

5.—(1) A relevant authority **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) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

(a) make available such documents and records; and

(b) supply such information and explanations;

as are considered necessary by those conducting the internal audit.

(3) In this regulation “documents and records” includes information recorded in an electronic form.

## Confirmations – Resources, Independence and Limitations of Scope

5. Members of the team hold various qualifications including ACCA, AAT and PINS. The 2020/21 audit plan contained 2363 days and I am satisfied that there were adequate staffing resources available to me to deliver the plan. The 2021/22 Plan in Appendix C has been matched to an assumed level of resources.
6. The PSIAS require that the Head of Audit and Risk must confirm to the Audit Committee at least annually regarding the organisational independence of the internal audit activity. The Internal Audit Charter and the Council's Financial Regulations re-inforce this requirement.
7. The Internal Audit Charter specifies that the Head of Audit and Risk must report to a level within the council that allows internal audit to fulfil its responsibilities. Appropriate reporting and management arrangements are in place within NCC that preserve the independence and objectivity of the Head of Audit and Risk who has direct access to the Chair of the Audit Committee, Leadership of the Council, Ministry of Housing Communities and Local Government, External Auditors, the Improvement Board, the Chief Executive, the Section 151 Officer, the Monitoring Officer, the Standards Board, and all councillors, as he considers appropriate.
8. 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 the Head of Audit and Risk's personal independence or objectivity nor has there been any inappropriate scope or resource limitations.

*Nothing has occurred during the 2020/21 year that has impaired the Head of Audit and Risk's personal independence or objectivity nor has there been any inappropriate scope or resource limitations.*

## Reports to Audit Committee

9. 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. The following summarises the information the Committee has received from the Head of Internal Audit and Risk during the last year.
- Annual Governance Statement and Update
  - Internal Audit Performance Reports
  - Role of Audit Committee and Work Programme
  - Internal Audit Charter
  - Internal Audit Annual Report
  - Internal Audit Annual Plan
  - East Midlands Shared Services (EMSS) Annual Report and Head of Audit & Risk Assurance
  - Audit Committee Terms of Reference and Work Plan
  - Provided the terms of reference for the committee's four working groups

## 2. Head of Internal Audit Opinion 2020/21

### Scope of the Opinion

10. The opinion has been prepared by the Head of Audit and is based upon the requirements of the Public Sector Internal Audit Standards (PSIAS).
11. Throughout 2020/21, the HoIA has continuously reviewed the significant challenges and risks associated with the Council's operations and has allocated the necessary resources, via the Internal 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 2020/21, and he has 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, the Ombudsman Report

and Grant Thornton (the Council's external auditor). External assurance sources such as OFSTED, and the Care Quality Commission have been reviewed, and where necessary further information has been sought, in order to assess these assurances.

### **Issues Relevant to the Annual Governance Statement Opinion**

12. The Head of Audit and Risk has identified the following significant issues (as defined in the CIPFA Code of Practice) that should be reported in the Annual Governance Statement:
- Medium Term Financial Strategy
  - Asset Management
  - Companies
  - Capital Programme & Debt Management
  - Governance & Decision Making, including Constitution
  - Ofsted Focussed Visit & Improvement Programme

### **Opinion 2020/21**

13. No systems of control can provide absolute assurance, nor can IA give that assurance. Internal Audit experience, covering financial systems, risk and governance, and the concerns raised by Max Caller in the Non-Statutory Review, and by the External Auditor in his Report in the Public Interest leads the HoIA to conclude that whilst many internal control systems are operating effectively within the Council, its significant partners and associated groups – the areas of weakness identified in the AGS lead to an overall limited level of assurance.
14. It is clear from the recent years' budget outturns and the early 2021-22 projected overspend that the financial control framework remains under stress. The Council has set out a Recovery & Improvement Plan. Internal Audit will prioritise activity in 2021-22 to align with the Recovery & Improvement Plan and continue to identify issues within financial control to assist management in maintaining the effectiveness of the framework.
15. In respect of the impact of the virus on the Council and its systems, to date no internal control failings have been brought to the attention of the Head of Internal Audit. Within the work we carry out in 2021-22 we will

remain alert to the potential for additional risks arising from the measures taken as a result of the emergency and any impact on the framework of governance, risk management and control. As part of this work we will assess fraud risk within grant / support payments.

### **Impact of Covid-19 on Internal Audit work**

16. The Council's response to the pandemic has impacted on the available Internal Audit resources since March/April 2020 and in particular, resources have been diverted to advise on and in some cases assist with new processes, namely Small Business Grants and Retail, Leisure and Hospitality Grants. The time spent on these activities has been significant.

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

### **2020/21 Audit Plan**

17. The Audit Plan and monitoring reports were presented to the Audit Committee throughout the year, detailing progress against the Plan. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit. The audit plan is fluid and has been changed to reflect differing risks and priorities arising during the year. The details of the audits finalised in quarter 4 are provided within appendices A and B and a list of all finalised audit reports issued for 2020/21, issued by 31 March 2021, is provided in Appendix D. There are a number of audit reports relating to the 2020/21 Audit Plan that were finalised and issued after 31<sup>st</sup> March 2021 that have been drawn upon for the purpose of compiling the Head of Internal Audit's opinion; these will be provided to the committee as part of the next update.

18. The final outturn for 2020/21 is summarised in the table below that shows the outturn against planned resources.



Internal Audit Plan against Actual 2020/21

<b>Audit Title</b>	<b>Planned Days</b>	<b>Actual Days</b>
<b>Governance</b>	240	190
<b>Organisation</b>	205	234
<b>Key Financial Systems</b>	150	185
<b>Procurement &amp; Projects Programme Management</b>	150	138
<b>Big Ticket / Risk Based Service Reviews</b>	90	17
<b>Compliance / Challenge</b>	80	58
<b>ICT and Information Governance</b>	122	87
<b>Counter Fraud</b>	400	472
<b>Corporate Fraud Strategy</b>	45	10
<b>Companies / Other Bodies</b>	251	345
<b>Consultancy, Advice and Support</b>	490	623
<b>Development , Redesign &amp; Quality</b>	140	94
<b>Total Days</b>	<b>2363</b>	<b>2453</b>

**A summary of the audit work from which the opinion is derived**

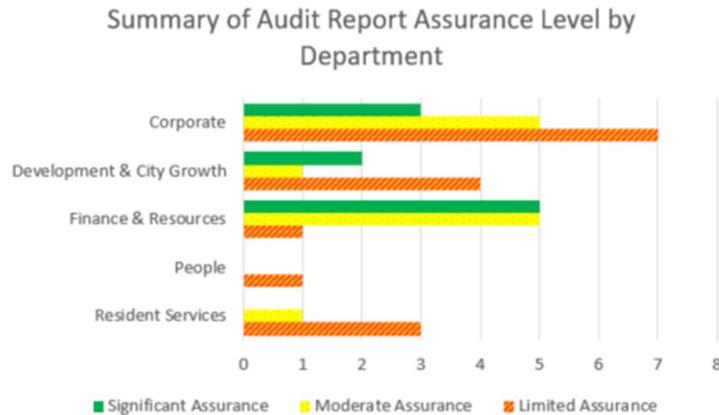
19. The Audit Committee sees summaries of all reports, levels of assurance and the associated high-rated recommendations as part of its annual work programme.
  
20. Internal Audit reports are normally comprised of a number of findings and recommendations. Dependent on the nature of these findings, the recommendations are classified as High, Medium or Low; a definition of these categories can be found in Appendix F. In addition, an opinion or level of assurance, which ranges from 'No Assurance', 'Limited Assurance', Moderate Assurance or 'Significant Assurance' also features in each report; a definition can also be seen in Appendix F.

21. The analysis below identifies the level of assurance for those reports issued to Corporate Directors during the 2020/21 audit year.

22. As can be seen, we have not issued any reports that have featured a 'No Assurance' opinion i.e. where we believe that there is a poor system of internal control or consistent non-compliance with key controls that presents serious risks to the council. A full list of the final reports issued can be found in Appendix D.

23. We have also responded to ad hoc requests throughout the year and provided feedback and guidance as necessary.

Analysis of assurance levels by department



24. Our work on key systems during 2020/21 has shown a slight decrease in the overall level of assurance compared to the previous year when the majority of key systems were assessed at significant assurance. However, it is still reassuring to note that the decrease is shown as a number of Moderate levels of assurance and as noted last year, there remains only one key system classified as Limited, which still gives the HOIA confidence that those systems underpinning the most financially significant activities are generally effective.

25. We have considered the results of our completed work over the year and have used the information to inform the 2021/22 Internal Audit Plan (see Appendix C).

## **Key Financial & Other Key Systems**

### **Key Financial Systems**

26. The opinion of the HOIA is informed significantly by the results of the audits of the Council's key financial systems. Our reviews of the key financial systems and other financial control audits support the opinion. As mentioned above, we have reviewed all of the key systems identified in our plan, some of which are operated by EMSS; which we report upon separately. The coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice. As indicated earlier, there is only one key system that is categorised as limited assurance which we will continue to monitor throughout the year.

27. The necessity to quickly make grant payments to businesses, in accordance with government instructions, did put a strain on colleagues across directorates and we have been concerned that the speed at which payments needed to be made could result in fraud or error. We have undertaken some post payment reviews of payments made via Oracle to ensure that there were no fraudulent applications for assistance.

*Key financial control systems are sound ... these controls continue to work well in practice*

### **Procurement / Contract Management**

28. We have continued to identify procurement and contract management issues across our audits. These are similar in nature to those identified in our 2019/20 audits. We will be revisiting these areas of activity during 2021/22 to assess corporate progress.

### **Fit for the Future (Fusion)**

29. We have monitored the progress of the project since inception and have commented upon specific areas over time, such as project governance, contractual responsibilities, risk management, new processes, data cleansing / migration. We have fed back our comments to the project team and other colleagues and also consulted with colleagues within Leicestershire County Council (LCC) with regard to expected controls. We have undertaken some limited testing of the processing of financial transaction via Fusion to allow us to complete some of the EMSS Audits (key systems) but intend to spend more time over the forthcoming year on documenting and testing the new processes, including HR and Payroll when this becomes live.

### **Risk Management**

30. Our review during 2019/20 showed a positive direction of travel with all outstanding high rated recommendations being implemented and our latest report, which is about to be issued, indicates a similar direction of travel.

### **Information Governance / ICT**

31. Information, Communication and Technology (ICT) plays a critical role in supporting all the services provided by the Council. A clear demonstration of this is the way in which IT, Information Compliance and Communications and Marketing responded to the recent Coronavirus outbreak. City Council buildings were closed and colleagues required to work at home and thanks to technology, colleagues were still able to continue to support citizens and maintain services whilst working at home.

32. We have reviewed the Information, Communication and Technology (ICT) Governance arrangements in line with recommended practice and taken into account all of the IT related audits that have been undertaken, not just those which relate to the Council's IT Service. The assessment is based on the Audits and reports issued within the financial year and where available reference has been made to other records, such as minutes from the Information Compliance Board, IT Governance Boards and Fit for the Future Programme Steering Group minutes. Based on the work that has been undertaken we are able to provide a limited assurance that the ICT Governance Framework is operating effectively. The basis for this opinion is because there are gaps within the Council's ICT controls and governance framework that may lead to Council's IT assets and resources not being effectively managed and controlled

33. During the year, we have received the following positive assurances that the ICT risks are being addressed:

- The Council has retained PSN, Cyber Essentials Plus and HCN accreditations, all of which have been externally assessed.
- The Information Compliance Team and IT both have operational risk registers and are reviewing their risks on a regular basis.
- IT has established three departmental governance boards with the aim of understanding departmental IT priorities and to assist them in managing their IT project and programme risks.
- The Information Compliance Team and IT Service report assurances and changes in risk to both the Information Compliance Board and SIRO so that the wider organisation has an awareness of the challenges and threats present.

### **Performance**

34. Our review focused on the corporate performance function and sought to provide assurance that NCC has adequate performance management arrangements in place for the current Council Plan 2019-2023. We reported Moderate Assurance on the controls in this area but highlighted scope for improvement of individual performance indicators, improvement of guidance, quality assurance and the Performance Management Framework. We also noted the need for the Council Plan and Performance Management Framework to be reconsidered to reflect the fundamental changes to priorities and resources arising from the Covid-19 emergency.

## Other Risk Based Audits

35. In accordance with our annual plan, we have undertaken reviews across all directorates and the following provides a brief insight into the results highlighted within some of these reviews.
36. During the period we have undertaken two follow up audits, which focused on previous recommendations made in respect of Selective Landlord Licensing. The latest follow up report showed a positive direction of travel but still indicated improvements required in terms of monitoring performance.
37. We have reviewed the preparations for the governance and administration arrangements with respect to the Transforming Cities Fund. This review produced a Significant Level of Assurance. We plan to review the operation of the Tranche 2 scheme, which has a total value of £186m, during 2021/22.
38. We have reviewed the arrangements for maintaining corporate property, including procurement of contractors, Service Asset Management Plans and Forward Maintenance Plan and condition surveys which produced good results with a Significant level of assurance
39. We followed-up our previous recommendations in respect of Nottingham Schools Trust and there have been improvements but there remains some scope for further improving the arrangements in place.
40. Our follow ups of Traffic Capital Projects and Public Transport continued to identify significant issues to address

## Grants

41. During 2020/21 a number of grant certifications were subject to routine work by Internal Audit including Better Care Fund - DFG 2019-20, LA Bus Subsidy Grant Claim 2019-20, NPIF Grants Audit 2019-20, Claim 2019-20 and Local Transport Capital Grant 2019-20. The value of these grant claims was £10.5m. There are no significant issues to report.

*£10.5m of grant certifications.*

## Corporate Reviews

42. We completed a number of reviews on behalf of the Chief Executive, the Section 151 Officer, the audit committee, portfolio holder and corporate directors to support them in their roles.

## Counter Fraud

43. Internal Audit includes a Corporate Counter Fraud Team (CCFT) that was established to investigate suspected financial irregularities, conduct pro-active counter fraud exercises and ultimately, save the Council money. Since its inception in 2016, the team has identified income in excess of £4.2m and savings exceeding £1.7m.

*Since its inception, CCFT has identified income in excess of £4.2m and savings exceeding £1.7m.*

44. Despite a reduced resource, CCFT still managed to achieve £333k of cashable income and £92k of estimated savings. The cashable income achieved via a project to review small business rate relief (£246k), reactive referrals from NNDR staff (£53k) and reactive referrals from Council Tax staff (£30k). The savings related to a housing tenancy issue and several right to buy applications that were stopped.

45. The National Fraud Initiative data matching exercise that is coordinated by the team occurred late in the financial year and is ongoing. The main task within this is the checking of SPD/electoral roll matches suggesting that a single person discount may not be valid. At the time of writing this exercise is underway.

46. The team has responded to referrals from around the Council and provided support for managers.

47. Internal Audit acts as a first point of contact for most whistleblowing concerns and supports the Council's Monitoring Officer who is ultimately responsible for managing the complaints received. We assess all reported irregularities or whistleblowing concerns that are consequently investigated by ourselves, the relevant directorate or HR colleagues, as appropriate.

48. We advise on changes to the whistle blowing code in conjunction with colleagues in HR, advise on any proposed refresh to the Gifts and Hospitality guidance for employees and refresh the Counter Fraud Strategy where necessary.
49. From January 2021, the Internal Audit and Risk team commenced supporting four sub-groups of the Audit Committee, which now meet every 3 months. These are Risk and Assurance, Fraud, Capital and Companies. Feedback from each subgroup is reported regularly.

### **Data Analytics**

50. We aim to utilise data analytics as a part of our planning process, to allow us to understand the total population within each data area, to identify issues, focus the scope of our work, target sampling etc. We have used it on our work on Housing Benefits, pro-active counter fraud exercises, Payroll, Accounts Receivable and plan to further expand our use of data analytics going forward.

*Data Analytics is a key activity for the future to ensure the most effective use of reduced resources.*

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

51. The Committee sees summaries of all reports issued and the associated recommendations. Systems are in place to monitor these recommendations, and those outstanding beyond their target date are reported to the responsible colleague nominated in the agreed action plans for their follow up. Our programme of activity to follow-up recommendations during the 2020-21 year has identified a positive response from client departments.

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

52. We have reviewed information from external providers of assurance during 2020/20 and identified further requirements in order to be able to assess the assurance concerns identified. These are found within Appendix E.
53. As a result of the external reviews by Max Caller and the external auditor, which led to the non-statutory review report and the report in the public interest, the effectiveness of the Council's governance framework, the arrangements are considered to need improvement, particularly in respect of arrangements for companies and financial decision making. CIPFA is supporting a review of all group companies and a Recovery and Improvement Plan is in place to improve the activities identified in the reports.
54. Corporate Directors and statutory officers have provided an assurance statement supporting the AGS for 2020/21. These statements have been supplemented by assurance gathered from key colleagues responsible for Internal Audit, Risk, Human Resources, and other 2<sup>nd</sup> line functions and group companies, and have also been informed by independent external reviews, including those carried out by the external auditor. The assurance is based around questionnaires developed from the CIPFA/SOLACE Framework for Corporate Governance.

#### **Changes to Internal Audit Plan**

55. There have been no major changes to the 2020/21 Audit Plan since it was previously approved by the committee.

### **4. Quality Assurance & Improvement Plan**

#### **Purpose**

56. Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of Nottingham City Council Internal Audit that the service:

- Performs its work in accordance with its Audit Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing and Code of Ethics
- Operates in an efficient and effective manners; and

- Is adding value and continually improving Internal Audit operations.

57. The HOIA is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including work with external clients. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years; we expect the next external assessment to take place in late 2021.

**Local performance Indicators**

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

<b>TABLE 2: PERFORMANCE OUTTURN</b>				
<b>Indicator</b>		<b>Target</b>	<b>Actual Year</b>	<b>Comments</b>
1.	% of all recommendations accepted	95%	97%	Above Target
2.	% of high recommendations accepted	100%	100%	Achieved
3.	Average number of working days from draft agreed to the issue of the final report assurance	8 days	7 days	Above Target
4.	Number of key / high risk systems reviewed	12	12	Achieved

<b>TABLE 2: PERFORMANCE OUTTURN</b>				
<b>Indicator</b>		<b>Target</b>	<b>Actual Year</b>	<b>Comments</b>
5.	% of colleagues receiving at least three days training per year	100%	47%	Below Target because of covid impact.
6.	% of customer feedback indicating good or excellent service	85%	92%	Above Target

### **Public Sector Internal Audit Standards (PSIAS)**

59. 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.
60. 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. Following a successful external assessment in 2017, the recommendations from this assessor's report, along with improvements highlighted by our own self-assessment were combined into an Improvement Plan. We have been working on the requirements of the Improvement Plan and to date we have no areas of non-conformance with the standards.
61. 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 met the requirements of the Accounts and Audit Regulations 2015*

## **Monitoring**

62. Internal Audit is committed to working to the highest professional standards, and to delivering a quality product that adds value to senior management. As such, performance is actively monitored and feedback from management is encouraged.

## **5. Internal Audit Plan 2021-22**

63. The number of days allocated in the plan for 2021/22 to provide the Head of Internal Audit with the necessary evidence for the opinion on the control environment is 2533, which includes the resources required to provide internal audit services to external clients. A summary of the IA Plan for 2021/22 is provided in Appendix C of this report.

64. As part of our approach to the 2021/22 audit plan, we will aim to concentrate our resources on those areas which are of greater concern to the Council's Section 151 Officer; reviewing the high level risks identified by the Council, assessing compliance with the Council's financial processes, supporting the Council's Improvement Plan, supporting the Council's development of its assurance framework, supporting the Council's group companies and generally looking for the basics to be in place within existing council services and encouraging more effective governance / assurance reporting.

65. We hope to further expand our use of data analytics to provide greater assurance for management from our work.

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

**Final Audit Reports issued 1<sup>st</sup> January to 31<sup>st</sup> March 2021 (Quarter 4)**

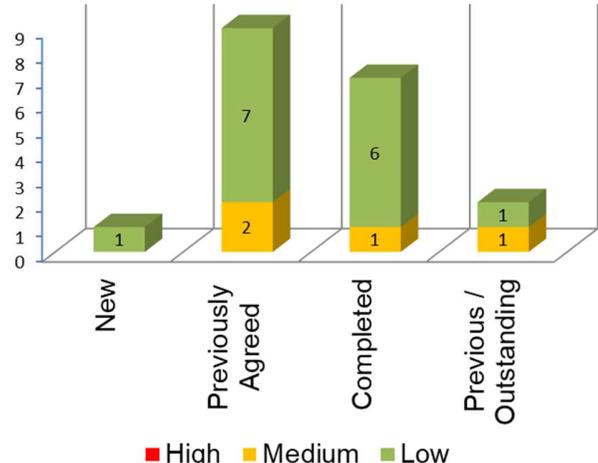
**Appendix A**

Department	Division	Activity	Level of Assurance	High	Medium	Low	
Finance & Resources	HR & Customer (Formerly Organisational Transformation)	Covid - Job Retention Scheme (Furlough)	Significant Assurance	0	0	2	
	HR & Customer (Formerly Organisational Transformation) Total			0	0	2	
	Information Technology	IT Change Management	Significant Assurance	0	1	8	
	Information Technology Total			0	1	8	
	Strategic Finance	NCC Accounts Payable 2020-21		Significant Assurance	0	0	0
		NCC Accounts Receivable 2020-21		Significant Assurance	0	1	1
		Better Care Fund - DFG 2019-20	Grant		0	0	0
		Budget Monitoring 2020-21		Moderate Assurance	0	2	0
		Bank Reconciliation 2020-21		Significant Assurance	0	0	0
		Main Accounting 2020-21		Significant Assurance	0	0	0

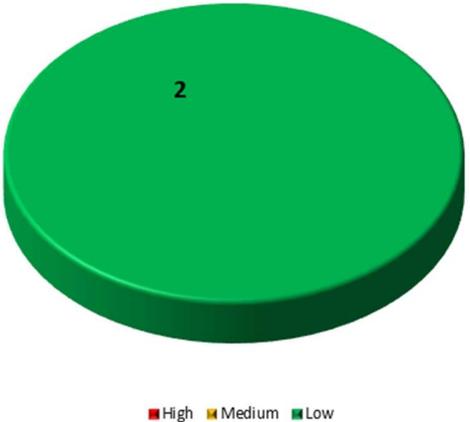
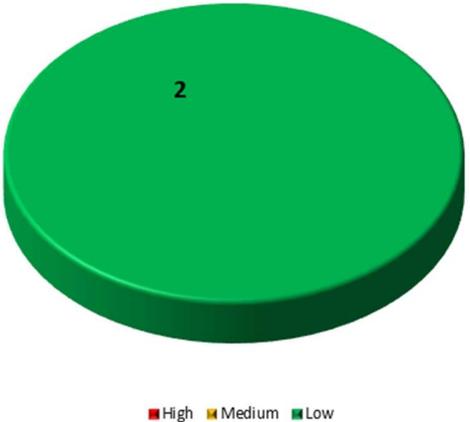
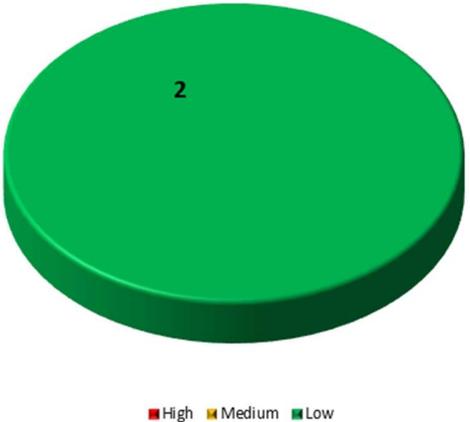
	Strategic Finance Total			0	3	1
<b>Finance &amp; Resources Total</b>				<b>0</b>	<b>4</b>	<b>11</b>
Growth & City Development	Housing Strategy & Partnerships	Housing Rents 2020-21	Moderate Assurance	1	4	0
	Housing Strategy & Partnerships Total			1	4	0
	Traffic & Transport	Public Transport follow up	Limited Assurance	0	0	0
	Traffic & Transport Total			0	0	0
<b>Growth &amp; City Development Total</b>				<b>1</b>	<b>4</b>	<b>0</b>
Resident Services	Commercial Infrastructure & Energy Services	NCC Carbon Neutral Commitment	Limited Assurance	6	14	0
	Commercial Infrastructure & Energy Services Total			6	14	0
	Community Protection	Environmental Health & Safer Housing - Selective Landlord Licensing Follow-up 2020-21	Moderate Assurance	4	5	1
	Community Protection Total			4	5	1
	Neighbourhood Services	Parks, Open Spaces Contracting	Limited Assurance	0	6	3
	Neighbourhood Services Total			0	6	3
<b>Resident Services Total</b>						
People		Nottingham Schools Trust Follow Up	Limited Assurance	0	0	0
<b>Total Recommendations</b>				<b>11</b>	<b>25</b>	<b>4</b>



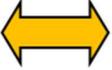
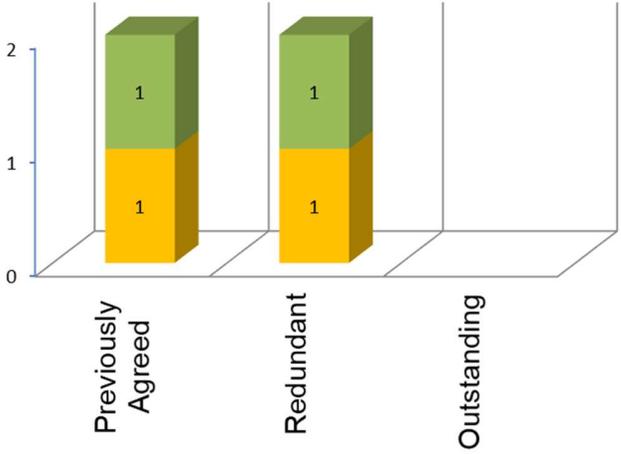
**IT Change Management**

<p>Department: Strategy &amp; Resources</p> <p>Previous review: IT Change Management – June 2017</p>	<p>Overall Opinion: <b>Significant Assurance</b> </p>	<p>Direction of Travel: </p> <p>The level of control over the change process is being maintained and therefore no cause for concern.</p>																				
<p><u>Scope and Approach:</u> This review considered the processes and controls with the IT Change Management process to ensure that changes are appropriately reviewed and approved.</p>																						
<p><b>High Priority Recommendations</b></p> <p>There are no high priority recommendations.</p> <div data-bbox="1272 778 1982 1343" style="border: 1px solid black; padding: 10px;"> <p style="text-align: center;"><b>Summary of recommendations by priority</b></p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <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</td> <td>0</td> <td>0</td> <td>1</td> </tr> <tr> <td>Previously Agreed</td> <td>0</td> <td>2</td> <td>7</td> </tr> <tr> <td>Completed</td> <td>0</td> <td>1</td> <td>6</td> </tr> <tr> <td>Previous / Outstanding</td> <td>0</td> <td>1</td> <td>1</td> </tr> </tbody> </table> </div>			Category	High	Medium	Low	New	0	0	1	Previously Agreed	0	2	7	Completed	0	1	6	Previous / Outstanding	0	1	1
Category	High	Medium	Low																			
New	0	0	1																			
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# Coronavirus Job Retention Scheme

<p>Department: HR &amp; Transformation</p>	<p>Overall Opinion:  <b>Significant Assurance</b> </p>	<p>Direction of Travel:          No Previous Review</p>		
<p><u>Scope and Approach:</u> This review considered the following:</p> <ul style="list-style-type: none"> <li>❖ The decision making process for which employees are furloughed</li> <li>❖ The accuracy of the data underpinning the claim</li> <li>❖ The accuracy of the calculations made resulting in the claim</li> <li>❖ Assurances obtained throughout the process</li> </ul>				
<table border="1" style="width: 100%;"> <tr> <td data-bbox="280 632 1283 1259"> <p><b>High Priority Recommendations</b></p> <p>No high priority recommendations</p> </td> <td data-bbox="1283 632 1989 1259"> <p style="text-align: center;"><u>Summary of the recommendations by priority</u></p>  </td> </tr> </table>			<p><b>High Priority Recommendations</b></p> <p>No high priority recommendations</p>	<p style="text-align: center;"><u>Summary of the recommendations by priority</u></p> 
<p><b>High Priority Recommendations</b></p> <p>No high priority recommendations</p>	<p style="text-align: center;"><u>Summary of the recommendations by priority</u></p> 			

## Accounts Receivable 2020-21

<p>Department: Strategy &amp; Resources</p> <p>Previous review: Accounts Receivable 2019-20 Accounts Receivable 2018-19 Accounts Receivable 2017-18</p>	<p>Overall Opinion: <b>Significant Assurance</b> </p>	<p>Direction of Travel: <b>No Change</b> </p>																
<p><u>Scope and Approach:</u> This review considered the following aspects:</p> <ul style="list-style-type: none"> <li>• Review of documentation supporting the raising of invoices and credit notes</li> <li>• Review of the level of accounts receivable debt</li> <li>• Review of the write-off of unrecoverable debt</li> <li>• Review of unapplied / unallocated in suspense</li> <li>• Follow-up of outstanding recommendations from previous audit reviews</li> </ul>																		
<p><b>High Priority Recommendations</b></p> <p><i>No recommendations outstanding</i></p> <div data-bbox="1214 718 1960 1318" style="border: 1px solid black; padding: 10px;"> <p style="text-align: center;"><b>Summary of recommendations by priority</b></p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>Previously Agreed</td> <td>1</td> <td>0</td> <td>1</td> </tr> <tr> <td>Redundant</td> <td>1</td> <td>0</td> <td>1</td> </tr> <tr> <td>Outstanding</td> <td>0</td> <td>0</td> <td>0</td> </tr> </tbody> </table> </div>			Category	High	Medium	Low	Previously Agreed	1	0	1	Redundant	1	0	1	Outstanding	0	0	0
Category	High	Medium	Low															
Previously Agreed	1	0	1															
Redundant	1	0	1															
Outstanding	0	0	0															

**NCC Accounts Payable 2020-21**

<p>Department: Resources Previous review: Annual</p>	<p>Overall Opinion: <b>Significant Assurance</b> </p>	<p>Direction of Travel: <b>No change</b> </p>
<p><u>Scope and Approach:</u> This review considered the following aspects of accounts payable:</p> <ul style="list-style-type: none"> <li>• Authorisation of payments</li> <li>• Invoices paid via CHAPS / BACS</li> <li>• Invoices on Hold</li> </ul>		
<p><b>High Priority Recommendations</b></p> <p>No recommendations</p>		

**Bank Reconciliation 2020/21**

<p>Department: Strategy &amp; Resources, Finance</p>	<p>Overall Opinion:   <b>Significant Assurance</b></p>	<p>Direction of Travel: </p>
<p>Previous review: Bank Reconciliation, 10 February 2020</p>	<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> <li>• The reconciliation of the General Bank Account, Oracle BACS, Oracle Cheques, NCC GDBC and CIVICA Paying in Slip Control</li> <li>• Management and review of automated income management system (CIVICA)</li> </ul>	
<p><b>High Priority Recommendations</b></p> <p>No recommendations are outstanding.</p>		

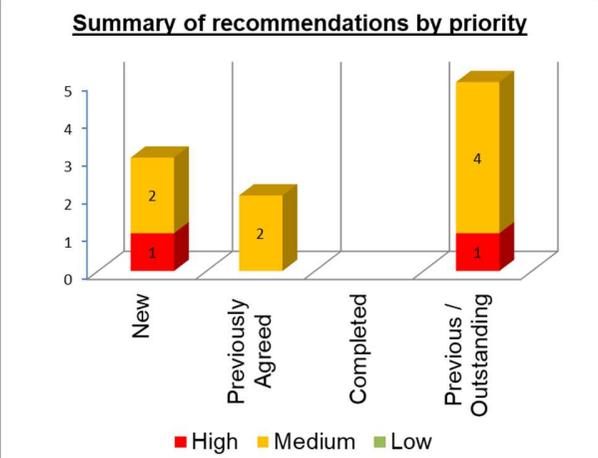
**Main Accounting 2020/21**

<p>Department: Finance, Strategy &amp; Resources</p>	<p>Overall Opinion:   <b>Significant Assurance</b></p>	<p>Direction of Travel: </p>
<p>Previous review: 10<sup>th</sup> February 2020</p>	<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> <li>• Carry forward and brought forward balances are able to be reconciled.</li> <li>• Ledger and interface integrity monitoring</li> <li>• Suspense and holding accounts are in place, regularly reviewed and cleared</li> <li>• Reconciliations are undertaken in a timely way</li> <li>• The processes operated for journal input.</li> </ul>	
<p><b>High Priority Recommendations</b></p> <p>No recommendations have been made.</p>		

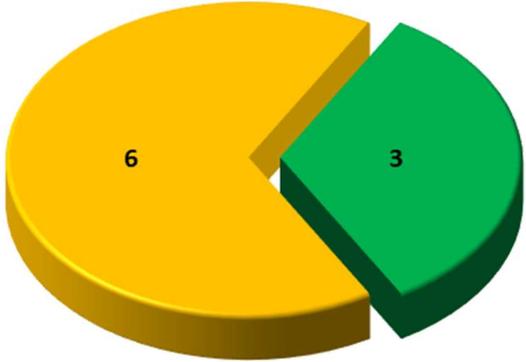
## Budget Monitoring 2020-21

<p>Department: Strategy &amp; Resources, Finance</p> <p>Previous review: Budgetary Control 2019/20, 22 November 2019</p>	<p>Overall Opinion: <b>Moderate Assurance</b> </p>	<p>Direction of Travel: </p>																				
<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> <li>• Budget approval from Full Council</li> <li>• Loading of the approved budget onto Oracle</li> <li>• Budget monitoring process</li> <li>• Sample testing of virements for compliance with Financial Regulations</li> <li>• Follow up of previous recommendations</li> </ul>																						
<p><b>High Priority Recommendations</b></p> <p>There are no high priority recommendations.</p> <div data-bbox="1330 724 2004 1259" data-label="Figure"> <p><b>Summary of recommendations by priority</b></p> <table border="1"> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>0</td> <td>2</td> <td>0</td> </tr> <tr> <td>Completed</td> <td>0</td> <td>1</td> <td>0</td> </tr> <tr> <td>Previous / Outstanding</td> <td>0</td> <td>1</td> <td>0</td> </tr> </tbody> </table> </div>			Category	High	Medium	Low	New	0	0	0	Previously Agreed	0	2	0	Completed	0	1	0	Previous / Outstanding	0	1	0
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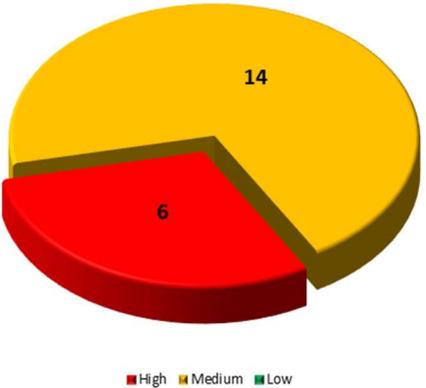
## Housing Rents 2020/21

<p>Department: <b>Development and Growth</b></p> <p>Previous review - Housing Rents 2019/20</p>	<p>Overall Opinion: <b>Moderate Assurance</b> </p>	<p>Direction of Travel: <b>Deteriorating</b> </p>																				
<p><u>Scope and Approach:</u> This review considered the following aspects of the rents system:</p> <ul style="list-style-type: none"> <li>• Annual rents are approved as part of the financial planning process</li> <li>• Current rents and policies support future spending forecast</li> <li>• Housing stock is reconciled on an annual basis</li> <li>• Rent income collected through the Radius system and posted onto the general ledger is reconciled to rent income received on the housing rents module of the Housing system.</li> <li>• There is a weekly reconciliation between HB system, Housing Rents iWorld and General Ledger</li> <li>• Low or nil rent properties on the HRA are reviewed on at least an annual basis for appropriateness</li> <li>• There is adequate performance management of void properties</li> <li>• Appropriate access controls to the Northgate Housing System</li> <li>• Follow Up on previously raised recommendations</li> </ul>																						
<p><b>High Priority Recommendations</b></p> <p>2020-21 R3 Alternative arrangements should be available to maintain reconciliations where a colleague is absent.</p> <p>A process for assurance to be provided to the system owner of status and last date reconciled for key reconciliations should be introduced.</p> <p>This should ensure that reconciliations are carried out in a timely way and that the system is operating effectively and as intended.</p>		<p><b>Summary of recommendations by priority</b></p>  <table border="1"> <caption>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</td> <td>1</td> <td>2</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>0</td> <td>2</td> <td>0</td> </tr> <tr> <td>Completed</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previous / Outstanding</td> <td>1</td> <td>4</td> <td>0</td> </tr> </tbody> </table>	Category	High	Medium	Low	New	1	2	0	Previously Agreed	0	2	0	Completed	0	0	0	Previous / Outstanding	1	4	0
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## Parks & Open Spaces Contracts

<p>Department: <b>Commercial &amp; Operations</b></p> <p>Previous review: N/A</p>	<p>Overall Opinion: <b>Moderate Assurance</b> </p>	<p>Direction of Travel: <b>NA</b></p>								
<p><u>Scope and Approach:</u> This review considered the following:-</p> <ul style="list-style-type: none"> <li>• Business objectives / commercial strategy.</li> <li>• Profitability and contract monitoring</li> <li>• Legislative requirements.</li> <li>• Risk management and assurance.</li> </ul>										
<p><b>High Recommendations</b> There are no high recommendations.</p> <div data-bbox="1249 647 1977 1246" style="border: 1px solid black; padding: 10px;"> <p style="text-align: center;"><b><u>Summary of the recommendations by priority</u></b></p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>0</td> </tr> <tr> <td>Medium</td> <td>6</td> </tr> <tr> <td>Low</td> <td>3</td> </tr> </tbody> </table> <p style="text-align: center;"> <span style="color: red;">■</span> High              <span style="color: yellow;">■</span> Medium              <span style="color: green;">■</span> Low         </p> </div>			Priority	Count	High	0	Medium	6	Low	3
Priority	Count									
High	0									
Medium	6									
Low	3									

## Carbon Neutral Plan 2020-21

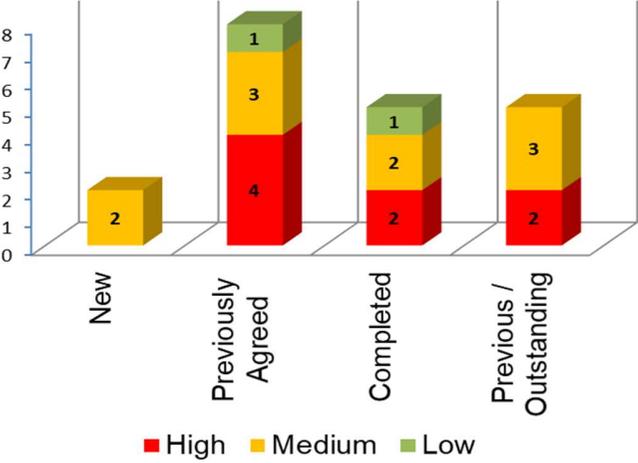
<p>Department: Commercial &amp; Operations</p>	<p>Overall Opinion:  <b>Limited Assurance</b></p>	<p>Direction of Travel: <b>N/A</b></p>								
<p>Previous review: This is the first review of this area</p>	<p><u>Scope and Approach:</u></p> <p>The scope of the audit will involve the review of the following:-</p> <ul style="list-style-type: none"> <li>❖ Carbon Neutral plan including             <ul style="list-style-type: none"> <li>○ Associated risk register(s)</li> <li>○ Alignment with Council Plan</li> <li>○ Alignment with best practice</li> <li>○ Assurances</li> <li>○ Procedures, governance and resources</li> </ul> </li> </ul>									
<p><b>High Priority Recommendations</b></p>										
<p>R1 The Consultation on the Draft Carbon Neutral Action Plan should be reported on the Engage Hub of the NCC website.</p> <p>R2 The Carbon Neutral Action Plan 2020-28 should include milestones and measurable targets against which progress can be assessed.</p> <p>R4 It is vital that all decisions taken by the City Council are assessment for their impact on achieving Carbon Neutral Status as a matter of first importance.</p> <p>R5 The mandatory Licensing schemes for HMO's should be amended to reflect the Carbon Neutral Plan and the UK Government aim of properties having a minimum 'C' rating by 2030, subject to legal considerations.</p> <p>R9 The Council should develop indicative programmes to upgrade HRA and private sector housing in Nottingham to the desired energy efficiency standards.</p>										
		<p><u>Summary of the recommendations by priority</u></p>  <table border="1"> <caption>Summary of the recommendations by priority</caption> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>6</td> </tr> <tr> <td>Medium</td> <td>14</td> </tr> <tr> <td>Low</td> <td>0</td> </tr> </tbody> </table>	Priority	Count	High	6	Medium	14	Low	0
Priority	Count									
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Continued

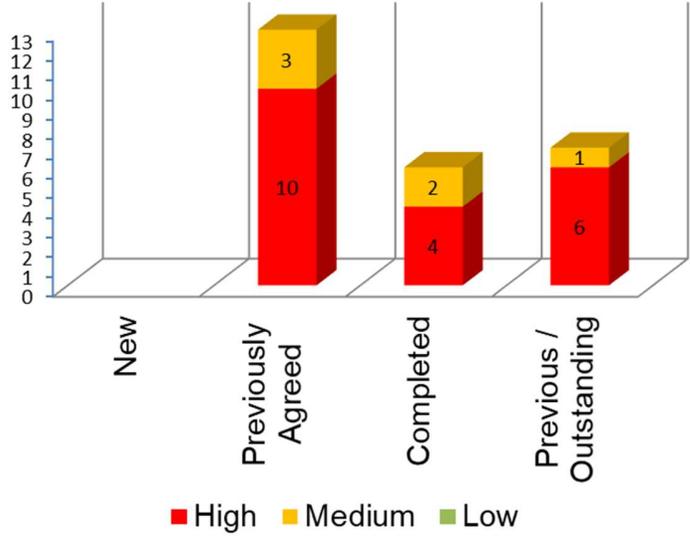
R10 Determine future arrangements for heat and energy supply to the customers of Enviroenergy and if this is to include continuing the existing supply of heat and energy by Enviroenergy ensure the following:

- Restructure of NCC relationship with EnviroEnergy to ensure that it is a going concern and able to deliver the heat and electricity to the District energy and heat networks beyond the immediate future.
- Put in place an agreement to fund and secure ongoing short to medium term supply from heat station.
- Renewal of the District Heating Scheme Agreement and development of the 3rd Line for the medium to long term.

## Selective Licensing Scheme follow-up 2020-21

<p>Organisation: Directorate: Community Protection</p> <p>Previous reviews: February 2019, May 2020</p>	<p>Overall Opinion: <b>Moderate Assurance</b> </p>	<p>Direction of Travel: <b>Improving</b> </p>																				
<p><u>Scope and Approach:</u> A follow-up review incorporating</p> <ul style="list-style-type: none"> <li>• Business case/business plan/action plan and surrounding documentation (including risk register &amp; Equalities Impact Assessment) and any reviews including PAG assessment</li> <li>• Monitoring against the business plan including any identified bottlenecks or issues</li> <li>• Policies, procedures and processes</li> <li>• Roles, responsibilities and competencies to ensure are adequate</li> <li>• Management information / Assurance</li> <li>• Budgetary control</li> </ul>																						
<p>High Priority Recommendations</p> <p>2018-19 R2 The performance and assurance framework should be defined and documented to include the factors outlined in R1, and should be regularly monitored and reported accordingly. Evidence of this should be maintained. Actions arising from monitoring should be allocated to owners, with target date, and progress tracked</p> <p>2018-19 R4 Operational performance specifications should be set and monitored, for</p> <ul style="list-style-type: none"> <li>• Processes for monitoring and progressing enforcement</li> <li>• Workload and activity targets for             <ul style="list-style-type: none"> <li>○ Enforcement</li> <li>○ Inspection</li> </ul> </li> </ul> <p>(Additional to R4 in 20-21) Focus should be applied to inspection targets and outcomes, and proactive enforcement to achieve inspection rate throughout the scheme.</p> <div data-bbox="1227 794 2004 1348" style="border: 1px solid black; padding: 5px;"> <p style="text-align: center;"><b>Summary of recommendations by priority</b></p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <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</td> <td>0</td> <td>2</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>4</td> <td>3</td> <td>1</td> </tr> <tr> <td>Completed</td> <td>2</td> <td>2</td> <td>1</td> </tr> <tr> <td>Previous / Outstanding</td> <td>2</td> <td>3</td> <td>0</td> </tr> </tbody> </table> </div>			Category	High	Medium	Low	New	0	2	0	Previously Agreed	4	3	1	Completed	2	2	1	Previous / Outstanding	2	3	0
Category	High	Medium	Low																			
New	0	2	0																			
Previously Agreed	4	3	1																			
Completed	2	2	1																			
Previous / Outstanding	2	3	0																			

## Public Transport 2018/19 Follow Up

<p>Directorate: Development &amp; Growth</p> <p>Previous reviews: Public Transport 2018/19, 28 September 2018</p>	<p>Overall Opinion: <b>Limited Assurance</b></p>		<p>Direction of Travel: <b>Improving</b></p> 																				
<p><u>Scope and Approach:</u> Follow up of the recommendations in the 2018/19 audit report.</p>																							
<p>High Priority Recommendations:</p> <p><b>Tendered services:</b> <b>2018/19 R2</b> Link services should be reviewed and a timetable created with Procurement to ensure tendering exercises take place for all routes.</p> <p><b>Concessionary Card Scheme:</b> <b>2018/19 R5</b> The team should work to improve independent reporting and routinely use this to evaluate and monitor operator information received.</p> <p><b>Robin Hood Scheme:</b> <b>2018/19 R8</b> The team should work with operators to finalise the agreement as soon as possible. <b>2018/19 R10</b> Written instructions for key tasks should be created. <b>2018/19 R11</b> Additional staff should be trained to provide cover, support and review of key tasks. <b>2018/19 R13</b> An NCC risk register should be created for the scheme and reviewed and reported on a regular basis to senior management.</p>	<p><b>Summary of recommendations by priority</b></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</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>10</td> <td>3</td> <td>0</td> </tr> <tr> <td>Completed</td> <td>4</td> <td>2</td> <td>0</td> </tr> <tr> <td>Previous / Outstanding</td> <td>6</td> <td>1</td> <td>0</td> </tr> </tbody> </table>			Category	High	Medium	Low	New	0	0	0	Previously Agreed	10	3	0	Completed	4	2	0	Previous / Outstanding	6	1	0
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New	0	0	0																				
Previously Agreed	10	3	0																				
Completed	4	2	0																				
Previous / Outstanding	6	1	0																				

## Internal Audit Plan 2021-22

## Appendix C

<b>Audit Category</b>	<b>Planned Days</b>
<b>Governance</b>	445
<b>Organisation</b>	175
<b>Key Financial Systems</b>	185
<b>Procurement &amp; Projects Programme Management</b>	105
<b>Big Ticket / Risk Based Service Reviews</b>	95
<b>Compliance / Challenge</b>	140
<b>ICT and Information Governance</b>	219
<b>Counter Fraud</b>	400
<b>Corporate Fraud Strategy</b>	95
<b>Companies / Other Bodies</b>	204
<b>Consultancy, Advice, Support and Follow Up</b>	290
<b>Development , Redesign &amp; Quality</b>	180
<b>Total Days</b>	2533

**Final Audit Reports issued during 2020-21 (1/04/20 to 31/03/21)**

**Appendix D**

<b>Department</b>	<b>Activity</b>	<b>Level of Assurance</b>
Finance & Resources	Covid - Job Retention Scheme (Furlough)	Significant Assurance
Finance & Resources	IT - Service Desk	Significant Assurance
Finance & Resources	IT Change Management	Significant Assurance
Finance & Resources	NCC Accounts Payable 2020-21	Significant Assurance
Finance & Resources	NCC Accounts Receivable 2020-21	Significant Assurance
Finance & Resources	Bank Reconciliation 2020-21	Significant Assurance
Finance & Resources	Main Accounting 2020-21	Significant Assurance
Finance & Resources	NCC Payroll and HR 2019-20	Significant Assurance
Finance & Resources	Council Tax 2019-20	Significant Assurance
Growth & City Development	Corporate Property Maintenance	Significant Assurance
Growth & City Development	Transforming Cities Fund	Significant Assurance
Finance & Resources	Disciplinary Process	Moderate Assurance
Finance & Resources	IT Audit - Cloud based applications - Corporate Issues	Moderate Assurance
Finance & Resources	Budget Monitoring 2020-21	Moderate Assurance
Finance & Resources	Capital Programme	Moderate Assurance
Finance & Resources	NCC Performance Management 2019-20	Moderate Assurance
Growth & City Development	Housing Rents 2020-21	Moderate Assurance

<b>Department</b>	<b>Activity</b>	<b>Level of Assurance</b>
Resident Services	Environmental Health & Safer Housing - Selective Landlord Licensing Follow-up 2020-21	Moderate Assurance
Finance & Resources	NNDR 2019-20	Limited Assurance
Finance & Resources	Counter Fraud - Proactive - Gifts, Hospitality & Declarations	Limited Assurance
Finance & Resources	Sickness Absence	Limited Assurance
Finance & Resources	ECINS	Limited Assurance
Growth & City Development	Public Transport follow up	Limited Assurance
Growth & City Development	Traffic & Safety Capital Projects 2020-21 Follow-up	Limited Assurance
Growth & City Development	Traffic & Safety Capital Projects - Follow Up	Limited Assurance
Resident Services	NCC Carbon Neutral Commitment	Limited Assurance
Resident Services	Environmental Health & Safer Housing - Selective Landlord Licensing Follow-up	Limited Assurance
Resident Services	Parks, Open Spaces Contracting	Limited Assurance
People	Nottingham Schools Trust follow up 2020-21	Limited Assurance
NCC Corporate	Decision Making	Limited Assurance
Finance & Resources	Better Care Fund - DFG 2019-20	Grant
Finance & Resources	LA Bus Subsidy Grant Claim 2019-20	Grant
Finance & Resources	Local Transport Capital Grant 2019-20	Grant
Finance & Resources	NPIF Grants Audit 2019-20	Grant

**External Assurances**

**Appendix E**

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
LGA & NCSC	<p><b>National:</b></p> <p><b>LGA cyber security programme newsletter (Nov2020)</b></p> <ul style="list-style-type: none"> <li>• LGA highlighted an NCSC report looking at the ransomware threat to UK local authorities</li> <li>• The newsletter highlighted NCSC guidance to mitigate malware and ransomware attacks and cyber defence tools</li> </ul>	<p>Mandatory IT Security training has been implemented across the Council for all staff using computers. Training compliance for the Council is reported quarterly to the Information Compliance Assurance Board.</p> <p>The Annual Information Governance and Compliance Assurance Report was presented to Audit Committee on 26 March 2021. This report included</p> <ul style="list-style-type: none"> <li>• roles and responsibilities</li> <li>• a summary of key activities / controls</li> <li>• a summary of resources</li> <li>• brief details of the Policy &amp; Practice framework,</li> <li>• Information Compliance Performance Indicators,</li> <li>• a framework for Information Compliance Assurance reporting progress through a commentary and RAG rating, and</li> <li>• assurance regarding cyber security.</li> </ul> <p>The Head of IT has confirmed that vulnerabilities from a well-publicised worldwide incident were promptly remediated prior to information becoming more widely available.</p> <p>Internal Audit continue to provide a range of IT audits throughout the year including assessments concerning cyber security.</p>
Grant Thornton	<p><b>Nottingham:</b></p> <p><b>External Audit of Housing Benefit subsidy</b> – The latest reported audit is for the year 2017/18 and resulted in</p>	<p>Officers and NRB continue to work with Grant Thornton to conclude outstanding years’ subsidy audits.</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	subsidy clawback. The cash flow issues experienced due to delayed completion of the 2017/18 subsidy audit have now been cleared.	Internal Audit continue to review the outturn of subsidy audits and the associated systems as part of our internal audits of Housing Benefits and make recommendations for improvements where appropriate.
CQC – Setting Inspection Reports	<p><b>Nottingham:</b></p> <p><b>CQC Inspections in 2020-21</b></p> <p>Cherry Trees Resource Centre</p> <p>Infection Prevention and Control practice reported 30Mar21 – Assured / somewhat assured – advice given</p> <p><b>CQC Inspections in previous years</b></p> <p>5 services inspected – all rated Good at last inspection except Cherry Trees Resource Centre rated Outstanding</p>	Received confirmation from service manager that advice has been implemented.
CQC – Adult Social Care:	<p><b>2020 REPORT</b></p> <p><b>National:</b></p> <p><b>CQC State of Care report (Oct 2020)</b></p> <p>The report noted that the social care sector continued to be fragile as a result of the lack of a long-term funding solution, and in need of investment and workforce planning, and there was a continued need for Parliament and government to make this a priority.</p> <p>The report highlighted the impacts of the pandemic including requirements for infection prevention and control, and the effect including increased loneliness and stress of some such measures on people concerned.</p>	<p>Assurance updates in Directorate newsletter confirm that:</p> <p>The Cherry Trees Resource Centre received a CQC inspection to review infection control practices as set out above.</p> <p>During the pandemic ways of working have been adjusted to ensure that the care and support needs of citizens have been maintained, including redeploying staff to areas of priority and working closely with care providers around the city. The Social Care Reablement service was able to establish a Temporary Emergency Support Team (TEST). This service was established using redeployed staff and an external recruitment drive for temporary contracts. This invited staff that had lost their jobs or were furloughed to come and work for the Council to support vulnerable adults to remain at home safely.</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<p>CQC noted increased innovation in the sector including online options. The challenge now will be to keep and develop the best aspects of these new ways of delivering services while making sure that no one is disadvantaged in the process, in particular people who are vulnerable to digital exclusion.</p> <p>The report highlights disproportionate impacts on some people with protected characteristics. These unequal effects have affected health and social care workers as well as people in need of care.</p> <p>CQC looked at collaboration between providers and noted that where there was well planned governance, clear decision-making arrangements and escalation plans, those system-wide responses were most effective. In contrast, where we found multiple or unclear governance arrangements, those areas experienced higher levels of confusion and duplication of effort.</p> <p>The voluntary sector played a critical role in helping health and social care to keep people safe</p>	<p>A CQC inspection of a nursing home in the city revealed that it had failed to meet specified improvements and the Council and CCG made the decision to terminate their contract with the home. The Council has a specialist Adult Safeguarding Quality Assurance Team who for several years have overseen both safeguarding investigations and closures of care homes, so we have a tried and tested procedure which effectively coordinates such critical incidents. The closure required prompt coordination and collaboration both within Adult Social Care, and with the CCG, police, County, CQC and Age UK. Strong commitment and partnership whilst supporting relatives, identifying alternative placements and aiming to keep the location Covid-free, ensured that residents were supported and safely moved to new locations.</p> <p>The 'Grow Your Own' initiative in partnership with Manchester Metropolitan University continues to be used to support colleagues within the department to become qualified Social Workers.</p>
IICSA Independent Inquiry into Child Sexual Abuse	<p><b>Nottingham:</b></p> <p>On 31st July, the Independent Inquiry into Child Sexual Abuse (IICSA) published its findings into the extent of any institutional failures to protect children in the care of Nottingham City and Nottinghamshire County councils from sexual abuse.</p>	<p>As part of AGS the following update has been received:</p> <p>The Service is tracking progress against this action plan and to build on current work, the Council has engaged external independent scrutiny to ensure that necessary actions have been undertaken.</p> <p>Updates on progress were provided to Audit Committee, Executive Board and Children and Young People's Scrutiny Committee during 2020. Updates have been presented at</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<p>There were two key recommendations, for which NCC needed to publish its response by 29<sup>th</sup> February 2020:</p> <ol style="list-style-type: none"> <li>1. Nottingham City Council should assess the potential risk posted by current and former foster carers directly provided by the council in relation to the sexual abuse of children. They should also ensure that current and former foster carers provided by external agencies are assessed by those agencies. Any concerns which arise should be referred to the appropriate body or process, including the Disclosure and Barring Service, the local authority designated officer (LADO) or equivalent, the fostering panel and the police.</li> <li>2. Nottingham City Council and its child protection partners should commission an independent, external evaluation of their practice concerning harmful sexual behaviour, including responses, prevention, assessment, intervention and workforce development. An action plan should be set up to ensure that any recommendations are responded to in a timely manner and progress should be reported to City's Safeguarding Children Partnership.</li> </ol>	<p>Corporate Leadership Team and Leadership Group during April 2021. A further update is scheduled at Children and Young People Scrutiny Committee in July 2021.</p> <p>The NCSCP has been successful in its bid to the NSPCC for support with Child Sexual Abuse (CSA). This means that they will now work with us to help us undertake a CSA recovery audit, to analyse local CSA provision and need from a multi-agency perspective. This work will help partnerships to understand how collectively they can better support young people.</p> <p>Following the audit, we will be offered a CSA awareness building training session to help embed best practice within the local area, and develop their understanding of CSA and the impact it has on children.</p> <p>In addition to this, we are hoping to be offered enhanced training to support us to provide a holistic CSA therapeutic recovery service to local children, young people and their families, called 'Letting the Future In'.</p>
Children's Commissioner	<p><b>Stability Index 2020</b>  <b>Private Provision in Children's Social Care</b>  <b>National:</b></p>	<p>CiC confirm attention to the themes in both these reports.</p> <p>The Children's Placements Manager confirms that Placement stability is considered and referenced throughout all placement specifications and highlighted as a success criteria/desired</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<p>The Children’s Commissioner has obtained data on placement and school stability for every local authority in England, and on social worker stability for nearly every local authority. A national report is published and Directors of Children’s Services and Lead Members for Children’s Services are notified of their local area’s rates of instability. National recommendations have been made in 2019 and the Children’s Commissioner has determined that children in care should be placed in good or outstanding schools only.</p> <p>The private provision report explores a range of questions about the involvement of private providers in the care system, in order to understand their role in the functioning of the care market. It considers the following questions around private sector involvement:</p> <ul style="list-style-type: none"> <li>• Profit making: <i>How much profit do private providers make? How do private providers make a profit?</i></li> <li>• Ownership, transparency and accountability: <i>Who owns private providers? What does private equity involvement mean for children?</i></li> <li>• Competition, market power and price setting: <i>How concentrated is the market for independent provision? Do private providers have the power to set prices?</i></li> <li>• Financial risk and instability: <i>What financial risks do private providers face? What do takeovers and mergers mean for children?</i></li> </ul>	<p>outcome for all external contracts. It is a priority as laid out within the CiC Placements Commissioning and Sufficiency Strategy, and most recently as an outcomes measure within the anticipated Supported Lodgings contract. NCC CiC use the DfE’s LAIT tool to review performance across all KPIs, including placement stability. Children with three or more placement moves are flagged within LCS and captured by Insight and Analysis. NCC CiC have a dedicated social impact bond (referred to as the STARS scheme) with a focus on supporting children and carers to achieve increased placement stability for our children.</p> <p>In addition, reports on private provision in the looked after children’s sector are closely followed and inform CiC commissioning planning. CiC review reports locally and as a regional group of Commissioning Leads across the East Midlands. CiC have responded to the CMA’s ongoing inquiry into the profits made by the sector (CMA Children’s Social Care Market Study), which is closely linked to this. CiC have identified work strands to improve commissioning practice, detailed within the CiC Placements Commissioning and Sufficiency Strategy – and are currently working closely with the County and with Health partners to achieve more collaborative commissioning to support improved outcomes for this group.</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<ul style="list-style-type: none"> <li>Quality of care: <i>How does the quality of care vary by type of ownership?</i></li> </ul> <p>The ultimate concern in the report is whether the market for care provision serves the best interests of children. This report therefore includes findings from speaking to children in care or with care experience about their perspectives on ownership in the care system.</p>	
<p>HM Inspectorate of Probation: Inspection of youth offending services</p>	<p><b>Youth Offending Inspection</b></p> <p><b>Nottingham:</b></p> <p><b>Youth Justice Service (YJS) Inspection</b></p> <p>Nottingham Youth Offending Service was subject to a full three week joint inspection in November and December 2019. This inspection is part of a four-year programme with ratings across three broad areas:</p> <ol style="list-style-type: none"> <li>the arrangements for organisational delivery of the service;</li> <li>the quality of work done with children and young people sentenced by the courts; and</li> <li>the quality of out-of-court disposal work.</li> </ol> <p>Overall, Nottingham City YJS is rated as ‘Requires improvement’ as reported 19 Mar2020.</p> <p>The key findings for organisational delivery were:</p> <ul style="list-style-type: none"> <li>Governance and leadership required improvement.</li> <li>Staff was rated as good.</li> <li>Partnerships and services were rated as good.</li> </ul>	<p>A Nottingham City Youth Justice Service Improvement Plan has been developed. This is monitored by the Youth Justice Management Board which includes the Nottingham Youth Justice Service, Nottingham City Council, the National Probation Service, Nottinghamshire Police and Nottinghamshire Healthcare NHS Foundation Trust. The improvement plan has seven key objectives each with actions that are RAG rated and updates regarding progress.</p> <p>Progress on the improvement plan was reported to the Youth Justice Management Board in May 2021, 1 of 7 actions was reported complete, with 12 elements of a further 4 actions completed and 2 with no elements completed but considered likely to complete on time. 1 element (a review requiring an effective YJS structure) is considered unlikely to complete on time without significant further action. The last programmed element completion date falls at the end of 2021.</p> <p>We will continue to review progress next year.</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<ul style="list-style-type: none"> <li>• Information and facilities were rated as good.</li> </ul> <p>The key findings for court disposals were:</p> <ul style="list-style-type: none"> <li>• Assessment was rated as outstanding.</li> <li>• Planning was rated as good.</li> <li>• Implementation and delivery was rates as good.</li> <li>• Reviewing was rated as requiring improvement.</li> </ul> <p>The key findings for out-of-court disposals were:</p> <ul style="list-style-type: none"> <li>• Assessment was rated as inadequate.</li> <li>• Planning was rated as inadequate.</li> <li>• Implementation and delivery were rated as inadequate.</li> <li>• Joint working was rated as inadequate.</li> </ul> <p>The following recommendation were made to the Youth Justice Service Management Board:</p> <ol style="list-style-type: none"> <li>1. review the out-of-court disposal process, making sure that cases are presented on time, and that decisions are consistent, based on an assessment of the child or young person, and are agreed by a multi-agency panel</li> <li>2. ensure the partnership reviews the number of very young children known to the YJS, and that policies and practices do not result in children entering the criminal justice system unnecessarily</li> <li>3. develop victim and restorative justice processes to ensure full consideration of the wishes and needs of victims, and opportunities for restorative justice are applied in every relevant case.</li> </ol>	

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<p>The Youth Justice Service heads of service should:</p> <p>4. improve staff’s access to clinical supervision and reconsider the use of mandatory interventions while promoting a trauma-informed practice approach to working with children and young people</p> <p>5. seek the views of children and young people, their parents/carers and other stakeholders, so that they can inform future service delivery</p> <p>6. review the quality assurance processes and improve the effectiveness of management oversight in all cases.</p>	
Ofsted	<p><b>Nottingham Annual Engagement Meeting (December 2020)</b></p> <p>As part of the annual conversation, Ofsted looks at the latest reports and review improvement plans and performance data. This then informs the plan for the following year.</p> <p><b>Nottingham:</b>  <b>Ofsted</b> and the DfE have continued to work closely regarding improvements with Nottingham following its Ofsted focused visit of February 2020.  Due to Covid, all Ofsted assurance and inspection activity had been on hold until April 2021 at the earliest.  A <b>Safeguarding Inspection</b> has been taking place in June 2021 and is due to report in August 2021.</p>	<p>All of Nottingham City Council Local Authority Children’s homes are understood to have achieved an Ofsted Inspection result of either Good or Outstanding.</p> <p>This assurance is managed through the annual conversation with Ofsted. NCC participates in inspections. In addition the Council has been working with Essex County Council as a Partner in Practice since May 2020 to support improvement. A good assurance framework exists in this area.</p> <p>The Council works closely with the LGA, DfE and Ofsted to keep them updated on progress.</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
Ofsted	<p><b>Nottingham</b></p> <p><b>Focused Visit of our Children’s Social Care Services February 2020.</b></p> <p>At this focused visit, inspectors found that the experience of children in need of help and protection had deteriorated since the last inspection where the service was classed as ‘requires improvement’.</p> <p>There were two key areas for priority action:</p> <ul style="list-style-type: none"> <li>• Address the systemic failures in social work practice to ensure that planning and intervention for children improve their experiences, and that new and emerging risks are identified and responded to.</li> <li>• Stabilise the workforce and address the significant shortfall in capacity to enable social workers and first line managers to respond effectively to children in need of help and protection</li> </ul>	<p>An Action Plan was created with the Children at the Heart Improvement Board including key partners established to drive its delivery. The action plan was agreed with Ofsted and includes support from LGA, DfE and Essex County Council. In December 2020 Essex undertook a review of improvement progress using their Partners in Practice review framework and recognised a strong foundation of improvement. The Council is looking to agree further support from Essex.</p> <p>Assurances have been provided to CLT, Leadership Group, Executive Panel, Executive Board, Audit Committee and the Children’s and Young People Scrutiny Committee in July 2020 and again in March 2021.</p>
National Association of Virtual School Heads	<p><b>Nottingham:</b></p> <p><b>Virtual School Peer review challenge (March 2021)</b></p> <p>In summary the scope of the review was:</p> <ul style="list-style-type: none"> <li>• How effective is the Virtual School structure? Including in respect of the education of children in care?</li> <li>• The potential benefits for children in Care and partners of the ePEP</li> </ul>	<p>Senior Management are due to hear about NCC’s response to the review in July. The peer review recognised strengths and made the following recommendations</p> <ul style="list-style-type: none"> <li>• Ensure arrangement for Post 16 young people and Early Years in your care are as strong as all other cohorts.</li> <li>• Ensure there is a balance between compliance and quality of PEPs as you move through this transition period. Both areas require improvement.</li> <li>• With the planned reduction in DSG support for the Virtual School team in future years – Explore the most</li> </ul>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<ul style="list-style-type: none"> <li>• The Virtual School's intended changed arrangements for the distribution and monitoring of Pupil Premium;</li> <li>• Effectiveness of arrangements for tracking, monitoring and supporting children who have been excluded, are without a school place or are on part-time timetables</li> </ul>	<p>effective ways to maintain staffing levels for the benefit of children in your care</p> <p>The challenge also invited consideration of</p> <ul style="list-style-type: none"> <li>• how the Virtual School might support those placed outside of areas requires clarification so that children placed out of city receive equitable services.</li> <li>• contact for a short period when the young person starts attending school again.</li> <li>• Transition for care leavers and 18-25 support</li> <li>• Consistent analysis and use of data to track children who are excluded, out of area and without a school place</li> </ul> <p>We will consider this further in 2021-22</p>
Ofsted and National Audit Office	<p><b>National:</b> <b>The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2017/18 (Ofsted)</b> Particular concerns were raised in respect of SEND provision.</p> <p><b>National:</b> <b>Support for pupils with special educational needs and disabilities in England, September 2019 (NAO).</b></p> <p>The report assessed how well pupils with special educational needs and disabilities were being supported. The report examined the system and its outcomes, funding, spending and financial sustainability, the quality of support and experiences of pupils and parents.</p>	<p><b>SEND</b> Nottingham City LA has a statutory responsibility to ensure that there is sufficient, high quality provision available locally to meet the needs of learners with SEND.</p> <p>Assurance for SEND will be reported to Audit Committee in early 2022.</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<ul style="list-style-type: none"> <li>Inspections indicate that many local areas are not supporting children and young people with SEND as effectively as they should be. The Department had commissioned Ofsted and the Care Quality Commission (the CQC) to inspect the effectiveness of support for pupils with SEND provided by education, health and care services in all local authority areas and at July 2019, Ofsted and the CQC had found significant areas of weakness in 47 (50.0%) of the 94 local areas inspected.</li> </ul>	
LGA - Early Years Peer Challenge	<p><b>Nottingham</b></p> <p><b>Local Government Association Peer Challenge Programme October 2019.</b></p> <p>The Local Government Association's (LGA) Peer Challenge programme came to Nottingham from 15-18 October 2019, focusing on speech, language and communication in the early years of a child's life (0–5). The Peer Challenge is part of the DfE's Unlocking Talent, Fulfilling Potential: a plan for improving social mobility through education programme, and ambition one is to close the word gap in the early years.</p> <p>The programme found that Nottingham City Council has a very strong and well informed political leadership and</p>	<p>The Children and Young People Scrutiny Committee received a progress report in March 2021 from Early Years on an SLC Strategy which is in development. It is expected that joint commissioning of SLC support including therapy will be a key element of the strategy. Colleagues are working with Derby and Leicester to centralise SLC resources for the city and to support parents, carers and professionals to navigate what is available, so that they can help children to develop their SLC skills. Information has been centralised in one place, called the Balanced System pathway, providing clear guidance and support. Data analysis is a key element of the approach to improvement. The Peer Challenge team were expected to review progress in 2021. Further scrutiny by the committee is proposed for 2021/22</p>

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<p>management who are championing the early years agenda for the city. There is a committed workforce across the Council, partners and the private, voluntary and independent childcare sector. There is clear evidence of integration across the city, however there are opportunities for providers and commissioners to further develop this work and the need for a city-wide speech, language and communication strategy to provide greater clarity on pathways for families, appropriate referrals to services and more timely interventions.</p> <p>The following key recommendations were made:</p> <ul style="list-style-type: none"> <li>• Develop an area wide 0 – 5 Early Years Strategy with a particular focus on speech, language and communication including a shared outcomes framework and data dashboard and a clear offer from children’s centres</li> <li>• Co-produce a parenting journey from a child’s conception through to school</li> <li>• Review the Speech and Language Therapy (SALT) offer to include group sessions (‘Chatterbox’ or ‘Home Talk’) with the aim of supporting triage, upskilling wider workforce, avoiding unnecessary assessments and providing input whilst awaiting specialist assessment</li> <li>• Review the use of children’s centres as venues for childminder groups, voluntary sector, peer led groups, other partners and more universal provision</li> </ul>	

External Assurance Provider - Relevance	Assurance Scope : Concerns	Further Assurance Activity
	<ul style="list-style-type: none"> <li>• Accelerate the integrated approach for the 2 ½ year checks – pilot with nurseries and CityCare the joint completion of the check</li> <li>• Increase the take up of 2, 3 and 4 year old funding, working with partner agencies to identify eligible children and parent champions to engage families</li> <li>• Review the approach to identifying and addressing needs of targeted cohorts not reaching GLD through effective data analysis</li> <li>• Consider developing a local authority cohort tracker for the return of summative EYFS data to evidence progress and inform intervention</li> <li>• Ensure that speech, language and communication needs inform Integrated Care System (ICS) long term planning to improve children’s outcomes and reduce inequalities</li> <li>• Creation of moderation hubs across the city</li> <li>• Use the documents that were provided for this peer challenge as the basis for a resource for your own workforce</li> </ul>	

**Levels of Assurance**

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

**Significant Assurance** There is a generally sound system of control designed to meet the organisation’s objectives and that controls are being applied consistently in the areas reviewed.

**Moderate Assurance** Generally a sound system of internal control designed to achieve the organisation’s objectives with some exceptions and / or evidence of non-compliance with some controls that may put some of the system objectives at risk

**Limited Assurance** Weaknesses identified in the procedures and controls in key areas and / or non-compliance with key procedures and controls which constitutes a risk to the achievement of the organisation’s objectives

**No Assurance** Poor system of internal control or consistent non-compliance with key controls which could result in failure to achieve the organisation’s objectives

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

**Categorisation of Recommendations**

**High Priority** A weakness where there is substantial risk of loss, fraud, impropriety, poor VFM or failure to achieve organisational objectives. Such risks could lead to an adverse impact on the business

**Medium Priority** A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor VFM. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.

**Low Priority** Weaknesses that individually have no significant impact but where management would benefit from improved controls and / or have the opportunity to achieve greater effectiveness and / or efficiency.

## 1. **Introduction**

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

## 2. **Purpose, Authority & Responsibilities**

### **Definition of Internal Auditing**

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

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

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

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

entitlement to exercise such right. These rights shall be included in all contractual arrangements entered into with such organisations.

### 3. Responsibilities

#### The Board (Audit Committee)

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

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

PSIAS ref	Duty of the Board	Compliance or Explanation
1000	Approve the Internal Audit charter	Comply
1110	Approve the risk based Internal Audit plan, the Internal Audit budget and resource plan including any significant* changes	Comply (budget and resources to be approved by S151 officer)
1110	Approve decisions relating to the appointment and removal of the Chief Audit Executive	This role is fulfilled by S151 officer but NCC recruitment process allows the Chair to be a stakeholder representative on recruitment panel. The Chair would also be consulted on any decision to remove the CAE.
1110	Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity	Comply
1110	Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations	Comply
1110	The chair to provide feedback for the Chief Audit Executive's performance appraisal	Comply

PSIAS ref	Duty of the Board	Compliance or Explanation
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.

### **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

PSIAS Ref	Role
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
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

PSIAS ref	Role
2600	Communicate to senior management and if necessary the board where concluding that management has accepted a level of risk which is unacceptable to the organisation
1000	Attend board meetings and contribute to the agenda.
	Arrange for the provision of training and technical support to keep board members informed of relevant legislation, good practice and governance issues.
	Participate in the board's review of its own remit and effectiveness.
	Access to all reports. Those considered to be of the highest risk will be highlighted and brought to their attention.

- 3.7. Progress reports will include the outcomes of internal audit work in sufficient detail to allow the board to understand what assurance it can take from that work, and / or what unresolved risks or issues it needs to address.
- 3.8. The annual internal audit report will include an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.
- 3.9. In addition the Chief Audit Executive will:

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

### **Internal Audit**

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

- 3.11. Individual auditors are responsible for ensuring that they operate with due professional care. This means they will follow the Nottingham City Council Internal Audit Code of Ethics in section 12 of this charter.
- 3.12. Internal auditors will make every effort to ensure a high quality service that complies with the PSIAS.

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

- 4.1. Internal Audit will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. Internal Audit will not have any operational responsibilities.
- 4.2. Accountability for the response to advice, guidance and recommendations made by Internal Audit lies with management. Management can either accept or implement the advice and recommendations or reject it, having regard to any statutory responsibilities and overriding instructions of the Council. Internal Audit retain the right to review the relevant policies, procedures, controls and operations at a later date, notwithstanding any advice, guidance or recommendations made.
- 4.3. The Chief Audit Executive will report the results of audit work in accordance with responsibilities set out in this charter and mandated by PSIAS including reporting to senior managers and the board.

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

#### **5. Resourcing**

- 5.1. The service will be delivered to professional standards by appropriately qualified, knowledgeable, experienced and skilled staff. The Chief Audit Executive will define the mix of these attributes through the Internal Audit Training Strategy, which will be updated on an annual basis to maintain an effective and agile audit service, support the audit plan and performance appraisals.
- 5.2. Internal Audit will seek more efficient and effective ways to deliver the audit service, provide assurance to councillors and help improve value for money and quality of Council services. Internal Audit will work to introduce continuous audit with the aim of evaluating control effectiveness across key systems on an ongoing basis and highlight high risk transactions or events on a timely basis.

- 5.3. Internal Audit will work with partners from local government and other sectors as necessary to ensure we have the right skills and resources to deliver a quality driven professional service to the Council.
- 5.4. Internal Audit will work in partnership with other inspection bodies to ensure that we get the maximum audit coverage from the resources invested; taking assurance from each other's work where appropriate.
- 5.5. If the Chief Audit Executive or those charged with governance consider that the adequacy and sufficiency of internal audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the definition of Internal Audit, they will advise Senior Management and, if appropriate, the Executive accordingly.
- 5.6. Sufficiency of Internal Audit resources will be determined in accordance with the Internal Audit Planning Methodology.

## **6. Scope**

- 6.1. The scope for Internal Audit is the control environment comprising risk management, control and governance of Nottingham City Council, and includes all of the council's, its partners', group and associate companies' operations, resources, services and responsibilities in relation to other bodies.. It covers all financial and non-financial related activities, systems and resources of the Council at all levels of its structure.
- 6.2. The internal control system is defined as including the whole network of systems and controls established by management to ensure that the objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the Chief Audit Executive will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives. Internal Audit may contribute to this by identifying elements of an appropriate corporate assurance framework.
- 6.3. Internal Audit will consider the results of the Council's risk management processes. Where the results indicate adequate action has already been undertaken to manage the risks / opportunities Internal Audit will take this into account. Where the results indicate that insufficient work has been done then Internal Audit may undertake a separate review.

- 6.4. The scope of audit work extends to services provided through partnership arrangements. The Chief Audit Executive will decide, in consultation with all parties, whether Internal Audit conducts the work to derive the required assurance or rely on the assurances provided by others. Where necessary, the Chief Audit Executive will agree appropriate access rights to obtain the necessary assurances.
- 6.5. Internal Audit will not undertake tasks, which are likely to compromise its independence, internal control functions or certification processes.
- 6.6. To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including but not limited to any of the following:
- review of controls within existing systems and systems under development
  - compliance with policies and procedures including Financial Regulations
  - transactions testing to ensure accuracy of processing
  - contract audit
  - establishment reviews
  - computer audit including data analytics
  - anti-fraud work
  - investigation of suspected fraud and irregularities
  - value for money reviews and transactions testing
  - provision of advice to Directorates and establishments including consulting services
  - provision of audit services to external clients.

**Consulting Service**

- 6.7. The PSIAS defines consulting services as follows: “Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.” No non-audit activities will be undertaken. The terms of reference of any consulting services will be designed to avoid impairment of objectivity for future audits.
- 6.8. The PSIAS requires that approval must be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.) Within Nottingham City Council significant is defined as any single assignment equivalent to 5% of annual planned days; these will be brought to the Audit Committee for approval. The decision to include it in the plan will

depend on the level of risk identified and whether reliance can be placed on opinions provided by others.

### **Fraud & Corruption**

- 6.9. The primary responsibility for the prevention and detection of fraud and corruption lies with management, who are also responsible for the management of fraud risks. In support of this, internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest when performing their individual audits. They will also have sufficient knowledge to identify indicators that fraud or corruption may have been committed.
- 6.10. The arrangements within the City Council's Counter Fraud Strategy and Fraud Response Plan, requiring that the Chief Audit Executive is notified of all suspected or detected fraud, corruption or impropriety, immediately. This enables the response plan to be implemented and helps to inform the Chief Audit Executive's annual internal audit opinion and the risk-based plan
- 6.11. The role of Internal Audit in any fraud-related work will be determined in accordance with the Fraud Response Plan.

## **7. Avoiding Conflicts of Interest**

- 7.1. Internal audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.
- 7.2. The Chief Audit Executive will maintain a register of interests for Audit staff. Any interests declared will be taken into account when planning and delivering work.
- 7.3. Arrangements exist to enable audit managers to report directly to the Section 151 Officer on any activities that are managed by the Chief Audit Executive.
- 7.4. Assignment arrangements preclude internal auditors from assessing specific operations for which they were previously responsible or where a substantive conflict of interest is identified including previous consulting activity that could be seen as impairing objectivity.

## **8. Business Plan Objectives**

- *To deliver an internal audit service that meets professional and mandatory standards and delivers suitable assurance to the Council.*

- *To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*
- *To deliver an effective counter fraud service to prevent, detect and deter fraud and error.*

## **9. Statutory Requirements**

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

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

### *Legal:*

- *Accounts and Audit Regulations 2015* [requirement for an internal audit and requirement for officers or councillors to provide information and records requested, the requirement to take account of PSIAS]
- *Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013* [powers to require information in relation to council tax offenders]
- *Criminal Justice Act 2003*
- *Criminal Procedures Investigation Act 1996*
- *Data Protection Act 2018 & General Data Protection Regulation*
- *Fraud Act 2006*
- *Bribery Act 2010*
- *Freedom of Information Act 2000*
- *Human Rights Act 1998*
- *Local Government Acts*
- *Police & Criminal Evidence Act 1984*
- *Proceeds of Crime Act 2002 & Criminal Finances Act 2017*
- *Regulation of Investigatory Powers Act 2000*
- *Social Housing Fraud (Power to Require Information) Regulations 2014*
- *The Protection of Freedoms Act 2012*
- *Theft Act 1978*
- *Welfare Reform Act 2012*
- *Public Interest Disclosure Act 1998*

### *Professional Requirements:*

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

- 9.3. The Chief Audit Executive reports to the Section 151 Officer under the Local Government Act 2002.
- 9.4. The Council adopted the CIPFA / SOLACE code of corporate governance in July 2002. This code together with the Statement of Recommended Practice (SORP) 2002 introduced the requirement for an annual statement of assurance to be made. The Council has subsequently reviewed / revised their Local Code of Governance in accordance with successive updates to the CIPFA / SOLACE Framework - Delivering Good Governance in Local Government. This means that the Chief Executive and Leader are required to sign a formal corporate assurance statement (known as the Annual Governance Statement (AGS)) on the effectiveness of the Council's governance arrangements and identify any significant governance issues.
- 9.5. Internal Audit has a role to play in advising Directors regarding the processes, and reporting mechanisms needed to compile their own assurance statements, which the AGS will be based on. An assurance framework has been introduced which places greater reliance on 'management assurance'. This is obtained from individual officers around specific areas of risk and the assurance documentation completed annually at both directorate and business unit level.
- 9.6. In addition the Council is developing an assurance framework and assurance mapping in order to better achieve its objectives.
- 9.7. The audit plan is risk based and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place. The Chief Audit Executive opinion will be prepared using the following sources of assurance, Internal / External Audit work, the AGS process, Risk Management processes and assurances identified in the assurance framework. Internal Audit will work with other assurance providers to improve overall coverage and avoid duplication of effort.
- 9.8. The Chief Audit Executive gives an opinion on the internal control environment, which forms part of the AGS, which the Council is legally required to produce as part of the final accounts. The work undertaken by Internal Audit makes an important contribution to providing assurance around the control environment, and the content of the AGS. The categories of work include but are not limited to: -
- *Section 151 work around the major and significant financial systems*
  - *IT Governance*
  - *Audit around the major risks and the risk management process*

- *Audit of corporate governance / business control assurance arrangements*
- *Evaluating the assurance available from other sources*
- *Counter fraud activities*
- *Work to ensure adequate whistleblowing arrangements*

## **10. The Annual Audit Plan**

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

1. **Understand corporate objectives and risks** by reviewing the Council Plan and Corporate Risk Register
2. **Understand departmental risks** by reviewing departmental risk registers
3. **Consider local and national issues** and how Nottingham City Council is affected
4. **Consult with key stakeholders within NCC** to identify potential emerging risks and to consider the expectations of stakeholders for internal audit opinions and other conclusions
5. **Utilise the Assurance Framework** to identify any possible gaps that represent potential reviews for inclusion in the Audit Plan, this will include external providers including external auditors
6. **Consider the requirements of the PSIAS** and ensure that the Internal Audit Plan reflects the expectation of the standard.
7. **Consider the results from Internal Audit reviews/recent experience** and put forward areas of concern as potential reviews including professional judgement on the risk of fraud and error
8. **Determine the minimum level of audit coverage**, timing and scope of audits to provide the annual Head of Audit Opinion on the control environment. This includes determining the approach to using other sources of assurances and any other work required to place reliance upon those other sources
9. **Consider the level of resources available** for the delivery of the audit plan including that these are appropriate, sufficient and effectively deployed.

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

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

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

10.5. Internal Audit will continue to develop its approach to audit work following best practice to put more emphasis on reducing the risk of

fraud. Counter fraud activity will include both reactive and proactive fraud work and providing further assistance to officers to better manage the risk of fraud through prevention, detection and deterrence. This will include work in relation to the NFI.

- 10.6. Follow up audits will be undertaken in accordance with the Internal Audit Follow-Up Policy which ensures compliance with PSIAS requirements.
- 10.7. Consultancy work will be undertaken within the limitations of existing resources.
- 10.8. A Charging Policy has been implemented. An appropriate charge will be made based on the type of work involved, priority and resources required. Requested work will be refused if in the opinion of the Chief Audit Executive it fails to provide an adequate level of prioritised assurance.

## **11. Quality Assurance and Improvement**

- 11.1. In accordance with PSIAS the Chief Audit Executive (CAE) has developed and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity.
- 11.2. The Quality Assurance and Improvement Program (QAIP) is designed to provide reasonable assurance to the various stakeholders that Internal Audit:
  - a) Performs its work in accordance with its Charter, which is consistent with the PSIAS
  - b) Operates in an effective and efficient manner; and
  - c) Is perceived by stakeholders as adding value and improving Internal Audit's operations.
  - d) To that end, Internal Audit's QAIP will cover all aspects of the Internal Audit activity (PSIAS Attribute Standard 1300).
- 11.3. The Chief Audit Executive is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consulting.
- 11.4. All members of the Internal Audit team have responsibility for maintaining quality.

## **12. NCC IA Code of Ethics**

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

### **Components**

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

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

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

### **Applicability and Enforcement**

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

#### **1 Integrity**

Principle

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

Rules of Conduct

Internal auditors:

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

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

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

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

#### **2 Objectivity**

Principle

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

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

#### Rules of Conduct

Internal auditors:

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

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

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

### **3 Confidentiality**

Principle

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

#### Rules of Conduct

Internal auditors:

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

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

### **4 Competency**

Principle

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

#### Rules of Conduct

Internal auditors:

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

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

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

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

### The Seven Principles of Public Life

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

#### Selflessness

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

#### Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

#### Objectivity

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

#### Accountability

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

#### Openness

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

#### Honesty

Holders of public office should be truthful.

#### Leadership

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

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## **Nottingham City Council - Counter Fraud Strategy**

### **1. BACKGROUND**

- 1.1 The Council aims to operate and maintain a clear system of integrated policies and procedures to assist in preventing fraud and hence minimise losses to the public purse. An overview of these arrangements will be maintained and good practice promoted through the use of regulation and various colleague and Councillor Codes.
- 1.2 The Council will put procedures in place to enable citizens and colleagues to raise concerns in the knowledge that these concerns will be properly and thoroughly investigated. These procedures will be continuously developed to improve the Council's response to fraud. Incidents of fraud will be published, sanctions will be imposed and redress will be sought where appropriate.
- 1.3 The Counter Fraud Strategy will continue to evolve and develop as circumstances change. Such circumstances will include changes in legislation, procedure, accountability within services and the Council's requirements. Substantive changes to the Strategy will be reported to Councillors for endorsement.
- 1.4 According to the Annual Fraud Indicator 2017, which provides the latest set of government sanctioned estimates, fraud costs the public sector at least £40.3bn annually, £7.8bn of which is specifically in local government.

### **2. COUNTER FRAUD IN CONTEXT**

- 2.1 Fraud is defined under the Fraud Act 2006 as dishonest false representation or abuse of position with the intention of making a gain or causing a loss or a risk of loss to another. For the purpose of this Strategy the term is also used to describe a number of offences under former and current legislation, including deception, forgery, theft, misappropriation, collusion, bribing and being bribed, conspiracy, money laundering offences, offences under the Identity Cards Act 2006, possession, making or supplying of articles for use in fraud or obtaining services dishonestly. The term is also used in respect of civil offences where claims can be made under the torts of deceit or negligence, breach of trust, or where a fidelity insurance claim may be made.
- 2.2 Therefore, 'fraud' can be used to describe a multitude of offences. In administering its responsibilities to protect public funds and assets, the City Council has developed this Strategy to deter fraud whether it is attempted from outside or within the Council.
- 2.3 This Strategy aims to protect public funds and assets by requiring compliance with regulations, rules, procedures, and guidance designed to encourage the prevention of fraud, promote detection and identify clear responsibility for investigations. The impact of the Strategy will be to ensure that Council resources are not diverted away from delivery of the priorities within the Council Plan.

2.4 This Strategy is based on:

- the seven Nolan Principles for Public Life;
- three additional principles in the Relevant Authorities Order 2001;
- best practice as previously defined by professional bodies;
- legal requirements including that incorporated in the, Public Interest Disclosure Act 1998, Competition Act 1998, Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, Fraud Act 2006, Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013, Public Contracts Regulations 2006, Local Government Act 1972, Prevention of Social Housing Fraud Act 2013, Serious Crime Act 2007 and the Bribery Act 2010.

2.5 This Strategy is based on a series of inter-related procedures designed to frustrate any act of fraud. These cover:

Culture	Section 3
Prevention	Section 4
Detection and Investigation	Section 5
Training	Section 6

### 3. CULTURE

- 3.1 The City Council expects the culture of the Council to be one of honesty and opposition to fraud. Councillors and colleagues at all levels are expected to lead by example by personally complying with and ensuring wider and comprehensive adherence to rules, procedures and practices which should feature straightforward, effective, well documented controls that are legally sound and honest.
- 3.2 There is a requirement, because of the use of public monies, that all individuals and organisations associated in any way with the Authority will act with integrity, without thought to or actions involving fraud. Any allegation of fraud will be dealt with in accordance with the Council's Fraud Response Plan (**Appendix B**) (see Financial Regulation (FR) C12. Fraud is likely to be considered as a serious issue if proven in disciplinary, standards or other inquiries.
- 3.3 Bribery is a criminal offence. The Council has a zero-tolerance towards bribery and does not, and will not, pay bribes or offer improper inducements to anyone for any purpose. The Council will not accept bribes or improper inducements, or use a third party to channel bribes to others and is committed to the prevention, deterrence and detection of bribery.
- 3.4 All individuals (irrespective of their formal employment status) working for or with the Council are an important element in the Authority's stance on bribery and fraud. They are encouraged through established procedures detailed in Financial Regulations, the People Management Handbook, Code of Conduct for Employees and the Code of Conduct for Councillors (Part 6 of the Council's Constitution) and the Confidential Reporting Code (Whistle Blowing Procedure) to raise any concerns that they may have on fraud issues where they are associated with the Authority's activities. The Council will support Councillors and colleagues in bringing such issues to its attention.

- 3.5 Councillors and colleagues can raise such issues in the knowledge that they will be treated in confidence and properly investigated. The "How to raise a concern" section of the Confidential Reporting Code details the reporting options available to colleagues.
- 3.6 If Councillors or colleagues are not satisfied with the Council's response to concerns they have raised, they have the right to refer the issue to external agencies. Possible contact points are listed in the "How the matter can be taken further" section of the Confidential Reporting Code.
- 3.7 Citizens are also encouraged to report concerns through any of the routes included in the Confidential Reporting Code. Alternatively they can use the Council's complaints procedure or the dedicated fraud lines advertised in the Council's entries in relevant telephone directories.
- 3.8 The Council will respond to all allegations as outlined in the "How the Council will respond" section of the Confidential Reporting Code and in accordance with the requirements of Financial Regulations C4.
- 3.9 However, it is important that colleagues avoid possible abuse of this process. If allegations are unfounded and malicious this is likely to be considered to be a serious disciplinary matter.

## **4. PREVENTION**

### **4.1 Colleagues**

- 4.1.1 The Council recognises that a key measure in preventing fraud is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential colleagues in terms of their propriety and integrity. In this regard, temporary and contract colleagues should be treated in the same manner as permanent colleagues.
- 4.1.2 Procedures for the recruitment of colleagues are detailed in the Recruitment Policy Statement, which is included in the Recruitment One Stop Shop website on the Council's intranet. Only colleagues who have attended an in-house recruitment and selection training course should be involved in recruitment.
- 4.1.3 Where references are requested, the candidate's suitability for the post needs to be in accordance with the person specification. Honesty and integrity is recognised in law as a duty owed by the employee to the employer, and the Council requires all prospective and current employees to deal with the Council honestly.
- 4.1.4 Dishonest applications will be referred for criminal investigation and prosecution if the evidence is considered to be sufficient.
- 4.1.5 Colleagues of the Council are also expected to abide by the Council's Code of Conduct for Employees which is included in the People Management Handbook. The requirement to observe the Code of Conduct is contained within the disciplinary procedure that forms part of the contract for all colleagues. The consequences of breaching the Code of Conduct are contained within the Council's disciplinary procedures. In addition, if colleagues are members of a professional body they are also expected to follow the Code of Conduct relating to their professional qualifications.

4.1.6 The Code of Conduct includes the requirement for colleagues to formally declare any pecuniary interest in contracts or service provided as prescribed in Section 117 of the Local Government Act 1972.

## **4.2 Suppliers**

4.2.1 The City Council is under a mandatory obligation to remove from its select lists any supplier of work, goods, materials or services that has been found to infringe “the Chapter 1 prohibition” of the Competition Act 1998 as it relates to anti-competitive agreements, decisions and concerted practices.

4.2.2 The City Council is also under a mandatory obligation detailed in the UK Public Contracts Regulations 2015 to exclude certain suppliers of work, goods, materials or services, from bidding for public sector contracts under the EU public procurement regime. Mandatory reasons include criminal conviction for certain offences and failure to pay taxes.

4.2.3 The City Council must enforce the obligations set out in 4.2.1 and 4.2.2 above when involved with the procurement of work, goods, materials or services. Guidance on enforcement is available from the Council’s Contracting and Procurement service.

## **4.3 Association with other organisations**

4.3.1 When dealing with external organisations and/or partners, the City Council expects the highest level of integrity. Where this is not the case the Council will re-examine the relationship it has with these organisations and take any action deemed necessary to protect the public resources and demonstrate its intolerance to fraud.

## **4.4 Councillors**

4.4.1 Councillors are required to operate within:

- The Council's Standing Orders
- The Councillors’ Code of Conduct currently adopted by the Council
- The Council's Councillor/Colleague protocol
- National Standards for Councillors, England & Wales

4.4.2 These documents are in both the Year Book and the Council’s Constitution. They include requirements for Councillors to:

- act according to principles and rules set out in the Councillors’ Code of Conduct
- disclose and register interests, including employment, business and property interests
- ensure they are not involved in matters or decisions where they have a conflict of interest.

Breaches of these requirements may be referred to the appropriate standards body.

4.4.3 Councillors should raise any concerns about fraud through the avenues detailed in the Strategy but must avoid raising unfounded malicious allegations which would breach the Code.

#### **4.5 Systems**

4.5.1 The Council's Strategic Director of Finance has a statutory responsibility under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Council's financial affairs and has developed Financial Regulations, Contract Procedure Rules and financial processes to assist in discharging this responsibility. In addition, there is a requirement to comply with the Accounts and Audit Regulations 2015, the Local Audit and Accountability Act 2014 and the Local Government Act 2003 relating to accounting records, control systems and audit.

4.5.2 The Financial Regulations and Contract Procedure Rules require colleagues, when dealing with the Council's financial affairs, to act in accordance with sound practices and outlines systems, procedures and responsibilities of colleagues. Colleagues involved in finance are required to attend relevant and effective departmental training programmes which promote and endorse the requirements of Financial Regulations. This programme of training will be developed to include a formal accreditation process to ensure that only appropriately trained colleagues can access main financial systems unsupervised.

4.5.3 Corporate Directors are responsible for the financial systems in their departments and are required to comply with Financial Regulations, which establish the rules through which they must operate. This responsibility includes considering the risk of fraud as defined by this strategy when making changes to financial systems and processes and when making changes to their department structures.

4.5.4 The Council has developed and is committed to continuing with systems and procedures that incorporate efficient and effective internal controls that include adequate separation of duties. Their existence and effectiveness is independently monitored and assessed by the Council's Internal Audit service, which carries out a comprehensive programme of audits targeted at key risk areas.

4.5.5 The City Council has appointed the Strategic Director of Finance to act in compliance with the Money Laundering Regulations and as part of this Strategy has imposed a maximum level for cash transactions of £1000. This level will be reviewed and updated from time to time.

4.5.6 Corporate Directors are responsible for ensuring that colleagues handling cash transactions have been recruited appropriately and are aware of their responsibilities as detailed in the relevant legislation.

4.5.7 In relation to Cyber Crime, emerging IT fraud threats will be monitored by the NCC IT Service to ensure our systems are able to robustly deflect and detect external cyber-crime attempts. Examples include, but are not limited to ;

- Hacking, to access the data held in our systems.
- Phishing, where external parties attempt to obtain passwords, bank account details, etc.

- Whaling, where an external party pretends to be an NCC employee, requesting another NCC employees makes a financial transaction
- Ransomware, where hackers access and ‘freeze’ an organisation’s systems, expecting payment for the systems to be unlocked.

#### **4.6 Combining with Others**

4.6.1 Arrangements are in place and continue to develop, to encourage the exchange of information between the Council and other agencies on national and local fraud activity in relation to Local Authorities. These include but are not limited to:

- The Police
- The Cabinet Office (National Fraud Initiative) or its equivalent
- National Counter Fraud Network
- DWP – Job Centre Plus
- The European Institute for Combatting Corruption and Fraud (TEICCAF)
- UCAS (Student Awards)
- Auditors’ networks, locally and nationally

4.6.2 The National Fraud Initiative (NFI) is part of the statutory audit process currently undertaken by the Cabinet Office. Local government, health and other public bodies are required to provide data from key systems which is cross matched to identify inaccuracies or potential fraud. The City Council will continue to actively participate in the NFI or similar exercises and will provide all mandatory data sets and all optional data sets where practical and effective. The Council will allocate appropriate resources for the investigation of the data matches returned and to respond promptly to queries from other participating bodies. The data sets provided or to be provided include:

- Payroll, Housing Benefits, Creditor Payments, Housing Tenants and Right to Buy, Council Tax, including CTRS, Personal budgets (direct payments), Electoral Register, Insurance Claims, Blue Badge Holders, Private Residential Care Home Residents, Market Traders, Taxi Drivers, Concessionary Travel Passes, Residents Parking, Personal Alcohol Licenses and Covid-19 related payments.

4.6.3 These arrangements provide a valuable means of combating potential criminal activity of a fraudulent nature against the Council and other public sector bodies. Such collaboration has been very successful in reducing the risk of external fraud.

#### **5. Roles and Responsibilities**

5.1 **Appendix A** sets out the key roles and responsibilities of those within the organisation for delivering this strategy

5.2 Overall responsibility for the delivery of the Counter Fraud Strategy resides with the Strategic Director of Finance (S151 Officer) and the Head of Audit and Risk.

5.3 Service areas also contribute to the delivery of the strategy, including but not limited to Revenues and Benefits, Blue Badges, Trading Services and Enforcement Teams as

these teams lead the prevention and detection of error, irregularity and fraud in their areas of responsibility.

- 5.4 Expert, corporate support in addressing fraud and irregularity risks is provided by Corporate Procurement, IT, Legal Services and Finance.
- 5.5 All Corporate Directors, managers and colleagues have a responsibility to maintain an awareness of the risks of fraud and irregularity, for obtaining assurance that these are being appropriately addressed and for raising risks or issues with senior management and Internal Audit.
- 5.6 Councillor roles and responsibilities in relation to the prevention of fraud and corruption are discharged through the Standards Committee, these roles are detailed within the Council's Constitution.

## **6. Detection and Investigation**

- 6.1 The number and extent of preventative measures, particularly internal control systems within the Council, has been designed to provide indicators of any fraudulent activity, although generally they should be sufficient in themselves to deter fraud.
- 6.2 As part of its proactive programme of work, the Council will undertake data matching exercises to assist in the detection of fraudulent activity. Using resources and information available, this work will be carried out in accordance with the Data Matching Strategy and Policy of the Council (**Appendix C**). Once these exercises are complete, the Council will allocate sufficient resources to provide a prompt resolution to any queries or apparent fraudulent activity.
- 6.3 It is often the alertness of colleagues and citizens to such indicators that enables detection to occur and the appropriate action to take place when there is evidence that fraud may be in progress.
- 6.4 Despite the best efforts of managers and auditors, many internal frauds are discovered by chance or third party information, and the Council has in place arrangements to ensure that such information is properly dealt with as set out in Section 3 of this Strategy.
- 6.5 The investigation of suspected internal irregularities such as fraud is normally carried out or directed by Internal Audit on behalf of the CFO and Monitoring Officer. The investigation of irregularities and personal responsibilities of colleagues and councillors are outlined in paragraphs 3.26-3.28 of Financial Regulations. The CFO has a responsibility for deciding on the course of the investigation. If the CFO, Head of Internal Audit or responsible Corporate Director considers that a loss may have occurred as a result of irregular expenditure or fraud, they may refer it to the Corporate Counter Fraud Team (CCFT) for criminal investigation.
- 6.6 Requesting, agreeing to receive or accepting an advantage, whether or not it is actually received, linked to improper performance of a function or activity and requesting, acquiescing to, or assenting to improper performance of a function or activity in anticipation of an advantage are serious criminal offences. The Code of Conduct for

Employees will reflect and incorporate this. It is normal practice for any such allegation to be referred for criminal investigation.

- 6.7 Corporate Directors will arrange for all instances of suspected fraud to be reported to the Head of Internal Audit who will maintain a central register in line with expected best practice and monitor the progress of each case. Investigations will be carried out under the management of the appropriate Corporate Director as directed by the Head of Internal Audit in consultation with the CFO and the Council's Monitoring Officer.
- 6.8 This reporting procedure is essential as it ensures:
- Consistent treatment of information regarding any suspected fraud.
  - An effective investigation by an experienced colleague and/or appropriate direction provided by Internal Audit/CCFT.
  - The proper implementation of a structured response to any suspected act of fraud including improvements to identified weaknesses in internal controls
- 6.9 The Head of Internal Audit will report back to the CFO on the current fraud cases recorded over the period plus the Head of Internal Audit will also provide an update at periodic meetings of Statutory Officers.
- 6.10 Dependent upon the nature and anticipated extent of the allegations, auditors and investigators will normally work closely with management and other agencies such as Nottinghamshire Police to ensure that all allegations and evidence are properly investigated and reported upon. Where a criminal investigation is running concurrently with an internal investigation, the requirements of the criminal investigation will take precedence over the internal investigation. This is necessary to minimise any impact the internal investigation has on the criminal investigation and the integrity of the evidence collected.
- 6.11 Within the context of 6.10, the Council will normally undertake a criminal investigation after review by its Corporate Counter Fraud Team whenever it considers that it has discovered strong evidence of fraud.
- 6.12 The Council's Disciplinary Procedures will be used where the outcome of an investigation indicates improper behaviour, whether or not the matter has been criminally investigated.
- 6.13 Sometimes the Council's external auditors may also carry out investigation into suspected fraud and will do so in accordance with their established procedures.
- 6.14 The City Council will seek the strongest available sanctions against any individual or organisation who commits fraud against the Council. The full range of sanctions will be applied consistently and fairly, taking a cost effective approach, making robust and transparent decisions. Actions may include prosecution, civil proceedings, disciplinary action and publication of investigation outcomes. The City Council expects contractors and partners to take similarly robust action.

## **7. Covid-19**

- 7.1 During 2020, the City Council has been required to provide a rapid response with respect to services and assistance to citizens and businesses. There is a view nationally

that the speed at which arrangements have been put in place has increased the risk of fraud occurring, even though it is expected that any new arrangements should feature adequate control measures.

7.2 Work will take place to review these arrangements throughout the year with a view to identifying any fraudulent activity.

## **8. Training**

8.1 It is recognised that the success of this Strategy and the organisation's general credibility will depend largely on the effectiveness of communication, programmed training, and responsiveness of colleagues throughout the Authority.

8.2 The Council supports management in the provision of ongoing financial awareness training at both corporate and departmental level, and the mandatory training of colleagues dealing with finance, as required by Financial Regulations.

8.3 New and existing colleagues are also expected to participate in fraud awareness training which is available via the Council's Learning Zone.

8.4 These training requirements should be incorporated into colleague induction training, the personal assessment process and any formal accreditation for colleagues involved in financial processes. Accreditation will require colleagues to acknowledge an understanding of their responsibilities within the procedures.

8.5 Appropriate training will be provided to auditors and other investigators regarding the investigation of suspected fraud, and this will be reflected in their individual training plans.

## Key Responsibilities for Delivering the Strategy

## Appendix A

ACTION	Internal Audit	Chief Exec	S151 Officer	Mon Officer	Directors Manager TLeaders / HR	SMT	Audit Cmttee	Colleagues / Contractors & Partners
<b>Strategy, Development, Maintenance and Reporting</b>								
Maintain the Counter Fraud Strategy	X							
Carry out Annual Fraud Risk Assessment	X							
Compile the Annual Fraud Report	X							
Review and approve the strategy, risk assessment and fraud report						X	X	
<b>Deter</b>								
Publication of the Counter Fraud Strategy	X						X	
Design and implement a periodic fraud awareness programme	X							
Publication of successes in dealing with fraud	X						X	
<b>Prevent</b>								
Review the preventative controls in key Council systems.	X				X			
Implement agreed actions to strengthen internal controls			X		X	X		X
Ensure consistent compliance with established controls to prevent fraud			X		X	X		X
Consider the implications for counter fraud controls in new and changing systems and procedures	X				X			
<b>Detect</b>								

<b>ACTION</b>	<b>Internal Audit</b>	<b>Chief Exec</b>	<b>S151 Officer</b>	<b>Mon Officer</b>	<b>Directors Manager TLeaders / HR</b>	<b>SMT</b>	<b>Audit Cmttee</b>	<b>Colleagues / Contractors &amp; Partners</b>
Review the relevant controls in key Council systems and carry out targeted, analytical review in high risk areas of activity.	X							
Implement agreed actions to strengthen controls			X		X	X		X
Ensure consistent compliance with established controls to detect fraud			X		X	X		X
Publicise the Whistleblowing Policy	X			X				
Raise fraud and corruption concerns promptly through the Whistleblowing Policy with a line manager/senior manager or directly with Internal Audit	X	X	X	X	X	X	X	X
Participate in the National Fraud Initiative and other counter-fraud groups	X				X			
<b>Pursue</b>								
Follow the Fraud Response Plan in all cases where fraud and corruption are suspected.	X	X	X	X	X	X	X	X
Decision to refer to the Police for investigation		X	X					
Decision to apply Prosecution Policy		X	X					
Decision to invoke the Council's					X			

<b>ACTION</b>	<b>Internal Audit</b>	<b>Chief Exec</b>	<b>S151 Officer</b>	<b>Mon Officer</b>	<b>Directors Manager TLeaders / HR</b>	<b>SMT</b>	<b>Audit Cmttee</b>	<b>Colleagues / Contractors &amp; Partners</b>
disciplinary process								
Consider options for seeking recovery of loses incurred			X	X	X			

**Nottingham City Council**

# **Fraud Response Plan**

**Nottingham City Council October 2011, last updated August 2020**

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# 1 Introduction and Objective

Nottingham City Council is committed to protecting public funds. Minimising the losses to fraud and corruption is an essential part of ensuring that all of our resources are used for the purpose for which they are intended - the provision of high quality services to citizens. We have a range of policies and procedures that facilitate the 'zero tolerance' approach adopted. These include the:

- The City Council constitution
- Accounting procedures
- Financial regulations and Standing Orders
- Colleague Code of Conduct
- Fraud Awareness Training
- Counter Fraud Strategy
- Prosecution Policies
- Confidential Reporting (Whistleblowing) Policy

The public is entitled to expect the City Council to conduct its affairs with integrity, accountability, honesty and openness, and demand the highest standards of conduct from those working for it and with it. Therefore one of the Council's main objectives, to combat fraud and corruption, is to identify and maintain good practices, address weaknesses in current processes and introduce improved systems for the management of those processes. This will ensure that the potential for fraud is kept to an absolute minimum. It applies to all Councillors and all personnel whether direct employees of Nottingham City Council, agency staff or contractors.

NCC Financial Regulations require that matters involving any suspected financial irregularities are referred to the Head of Internal Audit. The decision as to whether or not the irregularity should be investigated will be taken at his direction. All referrals are taken seriously and the action to be taken guided by an assessment of the risk. Where fraud is found, appropriate criminal investigation, disciplinary action and police involvement will be pursued. Losses will be recovered wherever possible and incidents of successful prosecution publicised.

Management and colleagues are likely to have little experience in dealing with fraud and, when suspected cases arise, may be unsure of the appropriate action to take. This document is intended to provide direction and help to colleagues in dealing with suspected cases of theft, fraud and corruption. It also gives direction to others wanting to report matters of concern.

The objective is to safeguard the proper use of the City Council's finances and resources.

## 2 Reporting fraud suspicions

### 2.1 Initial guidance if you suspect a fraud.

A fraud may be uncovered in a variety of ways, from your own observations, someone from inside or outside blowing the whistle, ongoing controls throwing up a discrepancy, internal or external audit discovering a problem, or external regulators and inspectors finding something. It is important for you to know how to deal with your suspicions.

#### Things to Note

- Stay calm – remember you are a witness not a complainant. Write down your concerns immediately – make a note of all relevant details such as what was said in phone or other conversations, the date, the time, the names and contact details of anyone involved. Consider the possible risks and outcomes of any action you take. Make sure your suspicion is supported by facts, don't just allege.
- Do not become a private detective and personally conduct an investigation or interviews. Do not approach the person involved (this may lead to him/her destroying evidence). Do not discuss your suspicions or case facts with anyone other than those persons referred to below unless specifically asked to do so by them. Do not use the process to pursue a personal grievance.
- You may be mistaken or there may be an innocent or good explanation – this will come out in the investigation. The process may be complex and you may not be thanked immediately and the situation may lead to a period of disquiet or distrust in the organisation despite your having acted in good faith.
- Where there is clear evidence of a theft of physical assets or cash, the police should be notified immediately.

### 2.2 Reporting your suspicions

The following reporting lines are to be used regardless of the potential magnitude of the fraud, which it would be difficult to quantify at an early stage. 2.4 overleaf illustrates the thought processes to be considered in determining the most appropriate reporting route. The following points may be useful

- **Your line manager**  
Generally this is your first port of call. Fraud prevention is their responsibility in particular. They will know the systems, the people, what is at risk. They should know whom to bring in.
- **A more senior manager or your Director**  
If you think your manager might be involved in the fraud or if you feel they have wrongly dismissed your concerns, then you should go to a more senior manager or your Director.

- **Fraud reporting email / internet**

If you do not wish to make the report directly to your line manager the Council has in place electronic methods of reporting your concerns. If you want to be assured of absolute confidentiality or wish to remain anonymous, you can report to the Head of Internal Audit or his Corporate Counter Fraud Team. You may do this directly or by using [fraud@nottinghamcity.gov.uk](mailto:fraud@nottinghamcity.gov.uk), or the reporting buttons available on the Council's websites.

- **Whistleblowing**

The Whistleblowing Policy on the intranet provides advice on reporting criminal acts (such as fraud). You should acquaint yourself with this policy before deciding to report the incident under the policy or as a fraud. If you wish to make a report under this policy you should contact the appropriate person identified in the policy who will then liaise with the Monitoring Officer or Head of Internal Audit. You may of course access the Monitoring Officer or the Head of Internal Audit direct or use the appropriate electronic mechanism on the Council's websites. Provided reports are made in good faith, you are protected by the Council and the law against retribution, harassment or victimisation and your confidentiality will be preserved.

If you feel unable to use Council's procedure for your disclosure you can contact an independent "prescribed" person who can also provide you with the appropriate employment protection, rights. If you make a disclosure to a prescribed person it is escalated outside the Council, since those with investigatory and regulatory functions can act upon the information provided, if they consider it necessary.

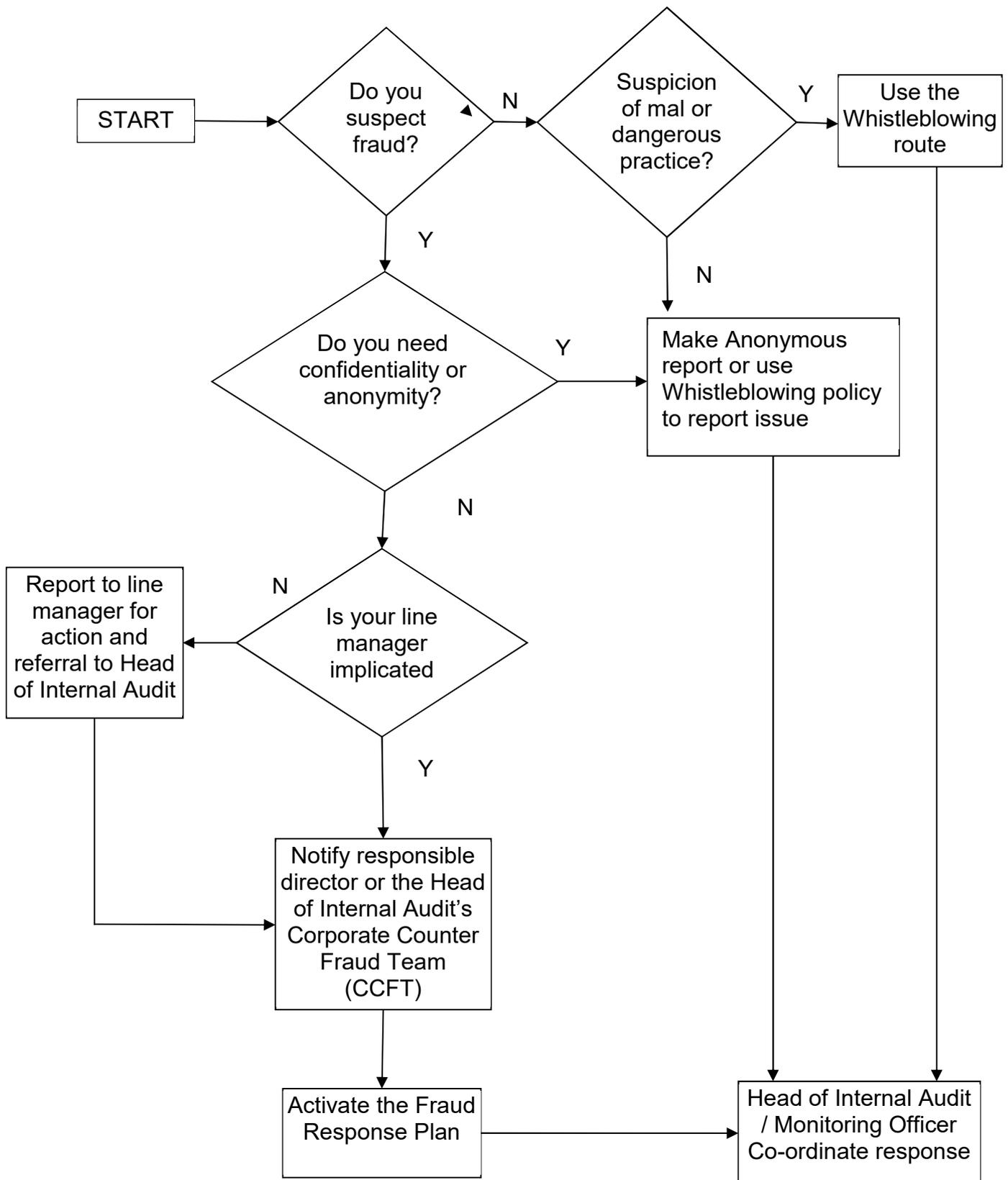
### **2.3 Guidance for line managers on receiving a report of fraud:**

- Listen to the concerns of your colleagues and treat every report you receive seriously and sensitively. Make sure that all colleagues concerned are given a fair hearing.
- You should reassure your colleagues that they will not suffer because they have told you of their suspicions.
- Obtain as much information as possible from the colleague. Do not interfere with any evidence and make sure it is kept in a safe place.
- Request the colleague to keep the matter fully confidential in order that senior management are given time to investigate the matter without alerting the suspected/alleged perpetrator.
- Report the matter immediately to the Head of Internal Audit who will arrange a full investigation of the matter and ensure an appropriate response is made.

## 2.4 Decision Tree and Actions

### Identified a Potential Fraud or Whistleblowing issue?

Refer to Financial Regulations and Whistleblowing Policy



## **3 Fraud Response Plan**

### **3.1 Introduction**

It is important that managers and others know what to do in the event of a fraud so that they can act without delay. The Fraud Response Plan covers the action required when fraud is suspected and to whom the fraud or suspicion should be reported. The Fraud Response Plan is a guide to how and by whom the fraud suspicion will then be investigated, reported and closed.

The Fraud Response Plan provides an outline of many of the areas that will need to be considered when investigating a large and complex fraud. For smaller less complex frauds, there will be parts of the plan that will not be applicable. It is however important to keep an open mind and consider whether a small fraud is concealing a much larger fraud.

### **3.2 Immediate Action**

All cases must be notified to the Head of Internal Audit and may also be reported to the Director or Line Manager

The Head of Internal Audit will ensure that all suspected fraud is recorded in the Fraud / Whistleblowing Register and updated as the investigation progresses (see appendix 5).

### **3.3 Head of Internal Audit - Fraud Response**

The Head of Internal Audit will arrange for the most appropriate response, including the provision of investigative resources from the department and where required from the Corporate Counter Fraud Team (CCFT) and the Legal Service. For small or less complex frauds, a large investigative resource may not be required, but the Head of Internal Audit should always be kept informed of progress at all stages of the investigation.

- Investigative Resources should be established as part of agreeing and signing off the Fraud Response Plan.
- Investigators should quickly determine the following:
  - whether an investigation is necessary
  - who will lead the investigation (the person chosen to lead the investigation should be appropriately experienced and independent of the activity affected by the alleged fraud).
  - any necessary additional resource to support the investigation
  - any immediate need for police involvement
  - any additional support requirements (eg IT facilities, a secure room, secure fax and phone facilities, administrative support etc)
  - any immediate need for legal advice
  - any immediate need for external, technical advice or support (eg forensics)
  - any immediate need to establish a PR/media strategy for dealing with the case (both internally and externally)
  - any immediate need to suspend colleagues; conduct searches and remove access (eg to files, buildings, computers/systems etc)
  - any immediate need to report the potential fraud externally (eg external auditors, tax authorities etc)
  - whether insurers need to be informed

- whether the chair of the Audit Committee should be informed
  - a timetable for the lead investigator to report back progress on the investigation.
- The objectives of the investigation should be documented and approved by the Head of Internal Audit at the outset. Likely objectives would be to:
    - establish if a fraud has taken place
    - identify the culprit(s)
    - establish the facts surrounding the fraud and ascertain total losses
    - remove the threat of further losses. (Note: in some exceptional cases it may be necessary to allow further losses, in order to gain additional evidence and increase the chances of successful criminal, civil, or disciplinary action. This should normally only be allowed under police guidance).
    - obtain sufficient evidence for successful disciplinary, criminal, or civil action
    - Certain action may need to take place immediately to prevent further losses.
  - The Director/Head of Human Resources should be involved on any decisions and action regarding suspensions and removal of access to files, systems and offices.
  - The date of the next meeting and review of the first investigation progress report should be agreed.
  - The Head of Internal Audit should be updated on a regular basis, to oversee progress of the investigation and to take major decisions relating to the case.

### **3.4 The Lead Investigator's Plan**

- The lead investigator should prepare an investigation plan, which should be submitted to the Head of Internal Audit for approval.
- The Plan should be fairly short term, as developments in the investigation will invariably result in changes. It should clearly show what work/tasks need to be completed, why they are necessary, by whom and by when.
- The Plan may cover some or all of the following:
  - identification and recording of the persons involved and facts of the case
  - handling internal and external communications
  - actions to prevent further losses
  - actions to secure evidence. Normally, evidence should be secured in a way that will be least likely to alert the suspect(s) or others
  - liaison with Human Resources and dealing with colleagues under suspicion
  - interviews to be conducted
  - timetables for involving the police or other external experts
  - analysis of evidence
  - internal reporting (eg to Management Team, Audit Committee, etc)
  - reporting to regulatory/government bodies and or the Police
  - target dates for reporting back to the Head of Internal Audit

### **3.5 Communications during and after the investigation**

The effectiveness of the Plan depends on good quality communication at all stages.

#### **Internal communications**

- Investigators need to ensure that everyone with a need to know is kept suitably briefed throughout the investigation and at the reporting, acting on findings and debriefing stages. Communication with any person(s) about whom concerns are raised needs to be conducted in accordance with the Council's HR policies. The person who raised concerns should be kept up to date, with due regard to confidentiality.
- There will always be a balance to be struck between communication and confidentiality therefore those persons or categories of persons who need to know should be clearly identified at each stage of the Plan, so that assurances on confidentiality can be given where required

#### **External communications**

- Third parties who may need to be alerted or informed might include the Police, regulatory authorities, insurers, legal advisors and external auditors. The Plan should make clear who is mandated to communicate with these third parties, and under what circumstances.
- The Council is prepared for the fact that frauds may attract media attention and the Plan should identify which colleague is mandated to deal with the press and what action any other colleagues contacted by the press should take. The current media communication channels and procedures should be used where possible

#### **Inappropriate communication**

The Plan should make clear any form of communication that is considered inappropriate, for example:

- discussing the case outside the Council
- confrontation between the person reporting the fraud and the suspected perpetrator(s). (Note that the Whistleblowing Policy provides assurances for the safety and confidentiality of the person making the report.)

### **3.6 Securing evidence**

- In securing and handling evidence it should be assumed that all evidence may need to be examined forensically and presented in court and should therefore be treated accordingly. (Even if criminal or civil action is not planned, it is sensible to adopt this approach.)
- Normally, all evidence should be kept securely under lock and key, with access limited to those working on the investigation. If necessary, locks to secure rooms should be changed. Evidence should be handled appropriately and a record should be maintained of anyone handling it.
- Evidence such as computer data, transferable media, videotape etc, should only be handled by suitably trained and skilled personnel. Where there is any doubt, professional/Police advice should be sought.

- Where evidence, or other relevant information, is to be shared with another body, careful consideration should be given to any data protection (confidentiality) requirements. Where there is any doubt, expert advice should be sought from the Council's Legal Services or Information Governance team.
- Evidence can take different forms and will need to be handled in different ways, for example:

#### **Original Documents**

- handle as little as possible
- put in protective folder and label the folder
- do not mark in any way
- assign responsibility to one person for keeping the documents
- keep a clear record of how and where the documents were obtained
- keep a record of anyone who subsequently handles the documents

#### **Computer Held Data/Transferable Media**

- keep secured in an appropriate environment
- data should only be retrieved from computers by those who are technically qualified

#### **Photocopied Documents**

- in some cases it may be preferable or necessary to leave original documents in situ and take photocopies for further analysis and investigation
- photocopies should be clearly marked as such
- photocopies should be signed and dated, and certified as a true copy of the original

#### **Other physical evidence (including Video/DVD/CD Rom)**

- keep secured in an appropriate environment (eg protective bag)
- videos should not be viewed until technical and legal advice is sought in order that they can be treated in accordance with the rules of evidence

#### **External evidence**

- There are potential external sources from which evidence or information to support an investigation can be obtained, such as the tax authorities, supplier records, government registers of companies, donor records etc.

### **3.7 Colleagues under suspicion**

- It should always be remembered that an allegation of fraud may be unfounded and in order to respect the colleague and ensure good working relations after an investigation, any action taken, such as suspension, and interviewing should be handled very carefully.
- Suspension from work is an opportunity to protect both the employer and colleague, providing the necessary space and opportunity to plan the investigation, investigate the facts and speak to other colleagues without the colleague being present. It should be made clear that suspension is not a judgement.

- The key factors in deciding to suspend colleagues will normally be prevention of further losses and removal or destruction of evidence. In some cases, it may be preferable to not suspend even at the risk of further losses (e.g. to gather further evidence).
- Any colleagues under suspicion who are allowed to remain at work should be closely monitored. This may include: physical surveillance of movements, monitoring of IT usage, monitoring of telephone, email and internet usage etc. (Note: it is advisable to seek legal advice regarding the use of surveillance techniques, to ensure compliance with local laws such as the Regulation of Investigatory Powers Act in the UK).
- Where a suspect offers to resign during the investigative process the consequences must be considered and a decision to reject or accept the resignation made only after consultation with HR, Legal Services and the Head of Internal Audit. By accepting the resignation the Council's ability to investigate the incident and gain proper redress may be limited.
- Other matters to consider include:
  - A review of HR records (e.g. to check references, employment history, qualifications etc, but with due regard to any data confidentiality / protection requirements)
  - Searching the suspect's work area; desk, cabinets, files, computer etc
  - Restricting access by the suspect to files, computers etc.

### **3.8 Interviews/statements**

- When interviewing colleagues under suspicion it must be made clear whether it is a formal interview or an informal discussion. It should be explained that you have no pre-set view, the suspicion should be outlined and the colleague given adequate time to respond.
- If it is decided that formal questioning is needed because involvement in a criminal offence is suspected, then the CCFT should be consulted to consider whether the interview should be conducted in accordance with the principles of the UK Police and Criminal Evidence Act (PACE). Guidelines can be found on the Home Office Website.
- Interviews should only be carried out with the approval of senior management/the Head of Internal Audit.
- Early consideration should be given to Police involvement, or consultation.
- There are strict rules relating to tape recorded interviews and investigators must be suitably skilled and experienced, where these are used.
- Ideally, statements should be taken from witnesses using their own words. The witness must be happy to sign the resulting document as a true record – the witness can be given a copy of the statement if desired.
- It is very important to keep contemporaneous notes on file, in the event that they are needed for future reference (e.g. court, tribunal, disciplinary hearing). Such notes should always show: date of interview; time started; time finished; and be signed and dated by the interviewer.

### **3.9 Police involvement**

- Discussions should take place with the Head of Internal Audit regarding the best course of action in each case. A decision will need to be made as to whether the case is reported to the Police but other alternatives should be considered, for example a private prosecution. For large-scale / serious frauds, it may be appropriate to inform the Chief Executive and ask the Police to attend meetings with the investigators, Head of Internal Audit and legal advisors.
- Where a decision is taken to pass the matter to the police, the lead investigator should prepare an evidence pack that can be handed to the police at the time the fraud is reported. The pack should include a summary of the fraud, highlighting (where known) the amount, the modus operandi, and the location, and including photocopies of key supporting documents and contact details of the person leading the investigation.
- Where practical a record of everything that is handed to the Police should be kept
- All contact with the police should be channelled through one person (ie the person leading the investigation). A record should be maintained of all contacts with the Police, the details of the officers, and the crime reference number.
- The Police have knowledge of similar cases of fraud and their advice should be sought regarding measures to prevent further losses or future incidents.

### **3.10 Prevention of Further Losses**

- Once actual or potential losses have been identified it is important that effective and timely action is taken to prevent further losses. It may however be decided that a better standard of evidence can be obtained by allowing limited further losses.
- The person in charge of the investigation should, at an early stage in the process, complete a preliminary assessment of the potential for further losses and how best to prevent them. He should make recommendations to senior management as to what if any immediate actions are necessary.
- Actions taken at an early stage may have to be circumspect so as not to alert suspects who have yet to be suspended or cautioned. It may also be important not to lose or compromise the forensic value of data by precipitate action. It may nevertheless be necessary to act quickly e.g. to stop payments to suspects who are being investigated.
- As the investigation continues, and more information emerges, further recommendations for action may be needed. At the end of the investigation, Internal Audit should review all the actions taken to prevent further losses and to report on this in the Review of Findings.

### **3.11 Recovery of Losses**

Once the identity of the perpetrator(s) and the size of the fraud has been determined, management must consider whether or not any of the loss can be recovered and take any further action that is necessary. This may require advice from the Insurers.

### **Reimbursement offered during the investigation**

- An individual may, in the course of an investigation, offer to repay the amount that has been obtained improperly. The person in charge of the investigation should neither solicit nor accept such an offer (as it may be construed as having been obtained under duress). The lead investigator should record any offer made and refer the individual to the Head of Internal Audit who in turn will consult with the Chief Finance Officer and Director of Human Resources.

### **Reimbursement offered during disciplinary or legal proceedings**

- If an offer of restitution is made while disciplinary or legal proceedings are still under way, management must seek legal advice before such an offer is accepted.

### **Reimbursement after completion of disciplinary proceedings**

- Where a colleague is to be dismissed, the manager should consider recovery of amounts due from any outstanding salary or expense payments. It will be necessary to take legal advice about the right to do this, as it is unlikely to be clear in the colleague's contract of employment.

### **Recovery of loss**

- Where the Council has suffered loss, restitution will be sought of any benefit or advantage obtained and the recovery of costs will be sought from individual(s) or organisations responsible for fraud.
- Where a colleague is a member of Nottinghamshire County Council's Pension scheme, and is convicted of fraud, NCC may be able to recover the loss from the capital value of the individual's accrued benefits in the Scheme, which are then reduced as advised by the actuary.

### **Court Order**

- Where a criminal case is taken against an individual a formal claim for restitution (where the court orders the defendant to give up gains) or alternatively a compensation claim made within a proceeds of crime claim should be made through the Police. Seek advice from Legal to determine the appropriate claim. Any monies due will be recovered via a Court Order.

### **Civil Action**

- Funds lost due to fraud can be recovered from the perpetrator by suing them for damages in a civil court. The level of proof required in civil cases is lower than that required in criminal cases and management may regard a civil action as a more effective use of their time than trying to persuade the Police to investigate and the courts to prosecute. If this approach is successful, the perpetrator will also have to pay the Council's legal costs. Seek advice from Legal to determine the appropriateness of the claim.
- A civil action can still be brought even if a criminal prosecution has failed. If a criminal prosecution is successful a civil action may be necessary to force the person convicted to repay the sums stolen.

- It is important to remember that the person being sued may be unable to make the repayment. In situations in which repayment is unlikely senior management approval should be obtained before additional legal costs are incurred.

### **Commercial Negotiation**

- Where the fraud has been committed by the employee of a contractor or supplier, all or part of the loss may be recoverable from the business concerned. It may be possible to reach an agreement that the loss can be deducted from any outstanding debts or that additional goods/services will be supplied free of charge.
- Third parties may want to agree a negotiated settlement in order to retain the goodwill of their customer and/or to avoid damaging publicity and legal costs. They may subsequently be able to recover these costs from their employees or their insurers

### **Insurance**

- The insurers should be informed as soon as a suspicion is raised. In certain circumstances it may be possible to make a claim against the insurers. The person who led the investigation should provide the insurers with any information that is required to substantiate a claim, or to support an attempt by the insurers to secure recovery from the perpetrator.

### **3.12 Administration**

- Careful administration of the investigation is of vital importance. A disordered investigation, without clear records and logs of events, communications, key dates etc, will cause problems at any court hearing, employment tribunal, or disciplinary panel.
- Maintain a chronological record of all events on a main file. This should include all correspondence, telephone calls and emails sent/made and received, interviews, visits, tests/checks undertaken etc.
- Maintain a list of all contacts (eg internal, Police, lawyer, donors/funders, peer organisations, government bodies, and technical advisers).
- Maintain a list of emergency contact numbers and ensure that this is shared with all those on the list.
- Maintain a log of anyone who handles evidence obtained, including the Police.
- Consider whether there is a need for dedicated administrative support; dedicated phone and email address; secure fax machine; secure room etc.
- Do not keep any unnecessary records or copies. Carefully shred any papers that are not needed (e.g. extra copies of progress reports).
- Establish internal and external communication protocols. Discourage the use of email to communicate sensitive information; avoid internal mail and hand deliver highly confidential information, opting for double-enveloped post for less sensitive information. Where email is used for communication, consider entering subject names that have no direct link to the investigation.

- Provide update reports as appropriate to the Head of Internal Audit

### **3.13 Reporting**

- Every investigation of suspected fraud or financial irregularity should result in a report written by the person who led the investigation. This should be done regardless of whether any colleagues are dismissed or prosecutions made and details entered in the fraud register.
- The register will record the scale of the fraud, when and how it was perpetrated and by whom. In addition the report will record; what action has been taken against the perpetrator, the actions to prevent further similar losses and to recover what has been lost. It will also usually be pertinent to note how the fraud was detected and whether or not existing controls were effective.
- Since the report may be used internally for disciplinary hearings or externally for civil or criminal proceedings, conclusions and opinions should be substantiated by evidence.
- It is important to strictly limit the distribution of the report. Copies will not be provided automatically to suspects or their representatives. If a disciplinary hearing takes place the individual and their representative may be entitled to receive a copy subject to obtaining legal advice.

### **3.14 Review, communication and action on Findings**

#### **Review of findings**

- The findings reported by the person in charge of the investigation should be reviewed by relevant managers and in particular the lessons learned to avoid future frauds.
- Senior Managers should satisfy themselves that, so far as is practically possible, a similar fraud could not occur again and /or the amount of potential loss has been minimised, the perpetrators have been properly dealt with and recovery has been pursued robustly.
- Managers and supervisors should be disciplined if they have not properly enforced existing controls and procedures.

#### **Communicating outcomes**

- Responsibility for communicating findings and actions to those involved and others who need to know should be set out in the Plan. The Council will hold a debriefing once outcomes have been finalised, to ensure that proper closure has been achieved.
- It may be necessary to manage the expectations of the person who raised concerns. The Whistleblowing Policy provides guidance on what may be communicated.

#### **Action on Findings**

- Any actions arising from the final report should be allocated to named individuals with appropriate due dates for completion.

- The final details of the fraud should be added to the entry in the Fraud Register.

### **3.15 Closure**

#### **Communication that the case has been closed**

- It is important that any decision to close the case is clearly documented and communicated to those involved.
- The case may be closed for a number of reasons, including:
  - All action points that arose from the final report have been completed.
  - The Head of Internal Audit decides there is insufficient evidence to support the allegations.
  - The Council does not wish to incur further costs investigating the case.
  - The decision to close the case and the reason for doing so should be documented by the person leading the investigation and should be added to the investigation file and the fraud register.

#### **Learning from experience**

- Following completion of the case, the Head of Internal Audit will prepare a summary report on the outcome and lessons learned, circulating it to all other relevant parties who must take the appropriate action to improve controls to mitigate the scope for future recurrence of the fraud or theft.

#### **Archiving**

- All documents associated with the investigation should be archived in a secure location with adequately restricted access, and be retained in line with the document retention guidelines.
- Any redundant documents and papers, or duplicate copies, should be carefully shredded.

## Appendix 1 - Examples of fraud

**Theft:** the illegal taking of someone else's property without that person's freely-given consent. Apart from the obvious theft of Council physical assets such as computers, shop stock and money, it includes:

- Misappropriation of funds
- Misuse of assets, including cash, stock and other assets, for example “borrowing” petty cash, use of photocopiers for private purposes
- Theft from a client or supplier
- Theft of intellectual property (eg unauthorised use of the Council name/logo, theft of product/software designs and client data)

**Bribery:** this implies a sum or gift given or sought that alters the behaviour of the person in ways not consistent with the duties of that person. It includes offering, giving, receiving or soliciting any item of value in order to influence an action.

**Corruption:** this is a general concept describing any organised, interdependent system in which part of the system is either not performing duties it was originally intended to, or performing them in an improper way, to the detriment of the system's original purpose.

**Deception:** to intentionally distort the truth in order to mislead others. It would include obtaining property, services or pecuniary advantage by deception or evading liability. Deceptions include:

- misrepresentation of qualifications to obtain employment
- obtaining services dishonestly via technology eg where a credit card that has been improperly obtained is used to obtain services from the internet, or any other situation where false information is provided to a machine
- possessing, making and supplying articles for use in fraud via technology eg computer programs designed to generate credit card details that are then used to commit or facilitate fraud
- undeclared and unauthorised private and consultative work
- failure to properly declare interests that may materially affect the carrying out of their role
- failure to observe, or breaches of, established Council / Service policies, procedures, or practices can in some circumstances constitute an irregularity
- money laundering (see below)
- providing misleading information in order to obtain funds, such as overstating activity

**Forgery:** this is the making or adapting objects or documents with the desire to deceive.

**Extortion:** this occurs when a person obtains money or property from another through coercion or intimidation.

**Embezzlement:** this is the fraudulent appropriation by a person to their own use of property or money entrusted to that person's care but owned by someone else.

**False Accounting:** this is dishonestly destroying, defacing, concealing or falsifying any account, record or document required for any accounting purpose, with a view to personal gain or gain for another, or with intent to cause loss to another or furnishing information which is or may be misleading, false or deceptive. It includes:

- Manipulation or misreporting of financial information
- Fraudulent completion of official documents (eg VAT receipts)

**Conspiracy:** this is an agreement between two or more persons to break the law at some time in the future. It includes breaches of regulations.

**Collusion:** the term “collusion” covers any case in which someone incites, instigates, aids and abets, conspires or attempts to commit any of the crimes of fraud.

**Money laundering:** this is the term used to describe the ways in which criminals process illegal or ‘dirty’ money derived from the proceeds of any illegal activity (eg the proceeds of drug dealing, human trafficking, fraud, theft, tax evasion) through a succession of transactions and deals until the original source of such funds has been obscured and the money take on an appearance of legitimate or ‘clean’ funds.

There are three internationally accepted phases to money laundering:

**Placement** – this involves the first stage at which funds from the proceeds of crime are introduced into the financial system or used to purchase goods. This is the time at which the funds are most easily detected as being from a criminal source. Such ‘dirty money’ will often be in the form of cash or negotiable instruments such as travellers cheques.

**Layering** – this is where the funds pass through a number of transactions in order to obscure the origin of the proceeds. These transactions may involve entities such as companies and trusts (often offshore).

**Integration** – this is when the funds are available via a legitimate source and allow the criminal to enjoy access to the funds again, with little fear of the funds being detected as being from a fraudulent source.

## **Appendix 2 - Terrorist Financing (Terrorism Act 2000)**

Under the Terrorism Act 2000 the assets of charities can be frozen if they are shown to have funded terrorists. Colleagues should therefore be aware of terrorist organisations posing as legitimate entities which can conceal the diversion of funds to terrorist organisations.

### *Example 1:*

An employee working for a charity used his occupation to support the on-going activities of a known terrorist organisation. The employee had secretly made contact with those involved in terrorist activity and used his position to hide weapons and bomb making equipment.

### *Example 2:*

An employee working for a charity obtained surplus funds from the Council to fund terrorism by padding the number of children it had claimed to care for by providing the names of children who were either dead or did not exist. Funds were then diverted to local terrorist organisations. The charity also employed members of the terrorist organisations and facilitated their travel.

### **Appendix 3 - Examples of controls to prevent and detect fraud**

- Thorough recruitment procedures.
- Physical security of assets.
- Clear organisation of responsibilities and reporting lines.
- IT access controls over data
- Adequate staffing levels.
- Supervision and checking of output.
- Separation of duties to ensure that key functions and controls are not performed by the same colleague.
- Rotation of colleagues.
- Random spot checks by managers.
- Regular activity by auditors.
- Complete and secure audit trails.
- Performance monitoring by management.
- Budgetary and other financial reports.
- Reviews by independent bodies such as the the external auditor and Internal Audit.
- Data matching.

## Appendix 4 - Warning signs for fraud

There are warning signs that can indicate a fraud may be taking place eg:

- Colleagues under stress without a high workload.
- Reluctance to take annual leave.
- Being first to arrive in the morning and last to leave in the evening.
- Refusal of promotion.
- Unexplained wealth.
- Sudden change of lifestyle.
- Suppliers/contractors who insist on only dealing with one colleague.
- A risk taker or rule breaker.
- Disgruntled at work/not supportive of organisations mission.
- Colleagues with serious financial problems.
- Colleagues whose lifestyle is disproportionate to their income.
- Unusual concerns about visits made by senior managers or auditors.
- Colleagues who often break the rules or fail to comply with procedures.
- Managers/colleagues who cut corners.
- Complaints about colleagues from customers or other colleagues.
- The lack of effective internal controls in an area.
- Unexplained falls in income levels or increases in expenses.
- Deliveries of stocks or orders to other buildings or non-Council buildings.
- Increases in the number of insurance claims.
- A general disregard by management and colleagues towards security.

Fraud Indicators can include:

- Colleagues exhibiting unusual behaviour (see list above).
- False entries in attendance records such as flexi sheets.
- Missing key documents (invoices/contracts).
- Inadequate or no segregation of duties.
- Documentation which is photocopied or missing key information.
- Missing expenditure vouchers.
- Excessive variations to budgets/contracts.
- Bank and ledger reconciliations not regularly performed and balanced.
- Unexplained or unreasonable balancing items in reconciliations
- Numerous adjustments or exceptions.
- Overdue pay or expense advances.
- Duplicate payments.
- Ghost colleagues on payroll.
- Large payments to individuals.
- Crisis management coupled with a pressured work environment.
- Lowest tenders or quotes passed over without adequate explanation.
- Single vendors.
- Climate of fear/low colleague morale.
- Consistent failure to implement key controls.
- Management frequently overriding controls.

## Appendix 5 - Fraud / Whistleblowing Register

The Fraud Register contains the following headings:

- Logged By
- Reference Number
- Referred By
- Date Referred
- Details of Referral (Brief)
- Contact Details
- Reported to Monitoring Officer
- Date Acknowledgement letter sent
- Agreed By
- Date Agreed
- Investigating Officer
- Stage / Status of Investigation Outcome
- Date Outcome Reported to Monitoring Officer
- Date Outcome reported to the Whistleblower
- Type of Whistleblowing Date action taken after case finished
- Type of fraud
- Value (£)
- Brief details of the fraud / corruption
- Fraud or Corruption
- Did the case involve an employee or a Councillor?
- Was the person prosecuted?
- Guilty Outcome?
- Outcome
- Perpetrator
- Type of Fraud

**Nottingham City Council**

# **Data Matching Strategy and Policy**

**Nottingham City Council August 2020**

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## **DATA MATCHING STRATEGY**

### **1. Introduction**

- 1.1 Nottingham City Council is committed to providing the best possible service to its citizens by continually making improvements and utilising resources efficiently and effectively. The Council has access to vast amounts of information and, by making better use of this information across the Council it can enhance services, increase income and work efficiently.
- 1.2 The ability to match data across the many Council databases can highlight gaps in service provision, identify possible fraudulent activity or streamline processes. The Cabinet Office under its statutory powers has collected data from many public bodies to carry out data matching exercises for the prevention of fraud. This National Fraud Initiative (NFI) has already proved successful by identifying frauds of £1.93 billion since its inception in 1996. Such has been the success of the initiative that many private sector clients now use the service.
- 1.3 Within the Council, Internal Audit uses data matching techniques in the course of some of its audit investigations. Following the success of data matching exercises it is appropriate that its use be expanded to support the enhanced use of information in the most efficient and effective way to improve the delivery of the service. It is a key objective of Internal Audit to enhance the Council's ability to proactively seek out fraud and error through rigorous, programmed data matching exercises and data mining on areas identified as high risk. Internal Audit will also be seeking a more targeted approach through the better use of intelligence.
- 1.4 Looking forward, Internal Audit's vision is to expand the use of data matching techniques to include activity on data from other relevant public sector bodies.

### **2. The key objectives of the Data Matching Strategy**

The key objectives of the strategy are:

- Nottingham City Council is committed to the prevention, detection and investigation of all forms of fraud and corruption. Continuous use of data matching in conjunction with auditing will be a pro-active approach to identifying and where possible preventing fraud and corruption. It will:
  - Provide an effective internal control and a means of helping to prevent or identify fraudulent or corrupt activities.
  - Develop an internal tool to help identify errors, inconsistencies, irregularities and risk to financial resources within the Council.
  - Ensure that the Council fully utilises the data held within its systems to best possible effect.
  - Aid the audit planning process and other audit projects.
  - Improve the control environment within the Council.
  - Identify potential weaknesses in design and operation of internal controls that may be creating the risk of fraud or irregularities occurring.
  - Identify potential weaknesses in the design of Information Systems that currently may not provide adequate assurances that they will prevent error or fraud.

- The Council is committed to ensuring its citizens have access to all services they are entitled to. The interrogation of data can highlight areas where there are gaps in service.
- Act in accordance with legislative obligations under the National Fraud Initiative.
- The audit process should be enhanced by:
  - improving the audit planning process and deployment of Audit colleagues
  - using the matching and interrogation of data to highlight areas for further investigation
  - highlighting errors, inconsistencies, irregularities and/or financial risk
- The Council will work within the relevant legislative framework including the General Data Protection Regulations, Data Protection Act, and Nottingham City Council Information Security policies.

### 3. Scope of Data Matching

- 3.1 Data matching and analysis may be performed on any City Council data system.
- 3.2 Data matching and analysis may be performed on data received from other public bodies by agreement and within relevant legislation.
- 3.3 In exceptional circumstances data matching and analysis may be performed on data received from other external systems where deemed appropriate to the furtherance of the City Council's anti-fraud objectives and where relevant legislation permits.
- 3.4 Data matching will be performed routinely to support our planned work or on an ad-hoc basis;

**Routine Data matching** – scheduled data matches may take place on a daily, weekly, monthly or quarterly basis. Datasets will be collected from core or significant systems.

**Ad-hoc data matching** – data matches may be required for work of a special nature when routine data matching activities would not be appropriate. Also, data collected for routine data matching activities may also be used as a by-product to drive and support the audit of large information systems.

### 4. Legal Basis for Data Matching

- 4.1 In order for the City Council to undertake data matching it must operate within the legislative framework. Internal Audit will work with colleagues in Information Compliance and Legal Services to keep abreast of new or amended legislation and ensure the correct procedures are in place to drive improvement.

- 4.2 Data is currently matched under legislation including:
- Local Audit and Accountability Act 2014
  - Local Government Act 1972
  - Accounts and Audit Regulations 2015
  - Benefit Counter Fraud – Social Security Act.
- 4.3 To support internal pro-active anti-Fraud activities, data matching takes place to assist the Section 151 Officer achieve their responsibilities. These are outlined in the Local Government Act 1972 and supported by the internal audit right of access stated in the Accounts and Audit Regulations 2015.
- 4.4 The City Council will adhere to the General Data Protection Regulations and the Data Protection Act 2018 by ensuring there are the relevant fair processing notices in place to inform the data subjects that data matching may take place to help detect and identify fraud.

## **5. Approach to data matching**

- 5.1 The balance of work carried out between routine and non-routine data matching will integrate with existing Nottingham Internal Audit planning objectives.
- 5.2 Routine data matching will be subject to one time approval as part of the planning process. The approval will be reviewed on an annual basis to verify that it remains valid and appropriate. All approvals will require a justification to be produced, outlining the data requirements and data field definitions.
- 5.3 The overall approach to data matching consists of an extraction of data from any system or data warehouse held by the Council, and then subsequently cross matching or exception testing this data to another data set to help identify potential errors, irregularities or suspect matches.
- 5.4 Non-routine (ad-hoc) data matches will require approval from the Audit Manager each time a data match is carried out. This will be done prior to approaching the data owner.

## **6. Retention of data**

- 6.1 The City Council will ensure that data is not held for longer than is necessary for the purpose it was obtained. In establishing retention and archiving periods we will consider both the possibility of complaints and the legal requirements.
- 6.2 All successful data matches that result in a fraud referral will be documented and retained in line with normal operating procedures.
- 6.3 Datasets used to carry out data matches will be retained for a maximum of six months after their planned use, subject to the need to conserve evidence.
- 6.4 All data refreshes will take place on a regular basis i.e. daily, weekly, monthly or quarterly as relevant to operational needs. Consequently, as the existing dataset will be overwritten, data will only be retained until the following scheduled refresh occurs.

## **7. Storage of data**

- 7.1 Data is held in secure computer files, which have restricted access.
- 7.2 Manual records will be held securely in locked filing cabinets.
- 7.3 Output reports and files that do not highlight a match will be securely destroyed.
- 7.4 Once the data matching exercise has been completed the extracted source data file will be deleted. Matches which do not identify fraudulent activity will also be deleted. Matches which subsequently highlight fraudulent activity will be maintained for analytical review.

## **8. Links to Audit Controls and Risk Registers**

- 8.1 Where significant fraudulent activities have occurred through poor system controls, the details will be fed to both the directorate and team responsible, and into the relevant risk register.
- 8.2 Details will be recorded by Internal Audit to help assess the implications on the annual assurance statement and for future trend analysis.

## **9. Management Action**

- 9.1 The Head of Internal Audit will make arrangements for follow-up of all positive data matches where a fraud has occurred but no action has yet been taken against the perpetrator(s) of the fraud.
- 9.2 If no action is taken by a line manager when a fraud or irregularity is proven, the Head of Internal Audit reserves the right to review the fraud circumstances and refer the matter to the City Council's Audit Committee.

## **DATA MATCHING POLICY**

### **1. Introduction**

- 1.1 Nottingham City Council is committed to quality service provision, reducing the number and value of errors, and reducing the level of financial risk and is continually looking to introduce more efficient and effective techniques to combat fraud. Processes within Internal Audit are designed, where practicable, to add value through techniques including data matching.
- 1.2 The benefits of data matching are well documented through government initiatives such as the National Fraud Initiative (NFI) run by the Cabinet Office. The NFI forms part of the statutory external audit process for councils, Police and fire authorities in England and Wales. Data matching under the NFI is a legal requirement and audited bodies and other participating organisations supply data for cross-matching between systems to identify cases where fraud may be occurring. Data matching has also been used to identify inconsistencies, for example, where similar information is stored in two different systems and errors resulting from data input.
- 1.3 Investing in improvement is a key priority for the Council to help it to manage resources economically, efficiently, effectively, flexibly and responsively. Consequently, errors or fraud identified via the data matching route will also help the Council to improve services and the internal control environment, supporting the Council's aspiration to be one of the best run Local Authorities in England.
- 1.4 Performing data matching and data analysis internally and informing suppliers, partners, colleagues and citizens that it is being carried out may act as a deterrent and create an anti-fraud and corruption culture within the City Council.

### **2. Definitions**

- 2.1 Data Matching – The computerised comparison of two or more data sets which relate to the same or similar individuals or elements to identify similarities or differences.
- 2.2 Data Analysis – The process of examining data with the aim of extracting some useful information and identifying anomalies.
- 2.3 Continuous Auditing – The method that is used to perform control and risk assessments in an automated manner on a more frequent schedule.

### **3. Purpose of Policy**

- 3.1 To ensure that a consistent data matching approach is adopted across Nottingham Internal Audit by making effective use of a clearly defined strategy and procedures.
- 3.2 To establish procedures that ensure data matching and analysis is conducted in a controlled, robust and approved manner.

#### **4. Principles of data matching**

- 4.1 The Council will only match and analyse data where relevant legislation permits, in order to avoid unlawful processing of data.
- 4.2 Data extracted will be obtained in accordance with the Data Protection Act and, where required, with the consent of the data owner.
- 4.3 To support the Council's determination to reduce fraud and error it will be Council policy to include a standard declaration in forms or input screens concerning the potential use of data provided to the Council in data matching exercises.
- 4.4 Only data actually needed to perform the data matching exercise is collected and processed.
- 4.5 Data matches will be fed into a structured and prioritised programme of activity.
- 4.6 Source and matched data is only seen by colleagues who need it in the course of their duties.
- 4.7 The results of a matching exercise do not automatically imply that fraudulent activity has taken place. It highlights areas for further investigation. The investigation team will conduct a thorough review of all results and ensure the accuracy of the data.
- 4.8 Data found to be inaccurate will be corrected in an appropriate manner so that decisions affecting individuals highlighted in the data matching routine are made on the basis of reliable and up to date data.
- 4.9 Data matching processes will be refined for future use where indicated by a review of results.
- 4.10 Data matching outputs are fed, where relevant and appropriate, into the Internal Audit planning process.
- 4.11 Source data and matched data outputs are protected from unauthorised or accidental disclosure.
- 4.12 Data is retained only for as long as it is required.

#### **5. Approval**

- 5.1 This policy forms part of the Council's Counter Fraud Strategy which is approved by the Council's Audit Committee.
- 5.2 The Head of Internal Audit will maintain the policy and review mechanisms set in place to ensure its principles are delivered.

## **6. Compliance**

6.1 Compliance with the policy will be required as part of the Council's Counter Fraud Strategy.

6.2 All relevant colleagues should receive appropriate training to provide an assurance that this policy is understood and followed effectively.

## **7. Data Retention and Disposal**

7.1 Data retention/disposal standards will be in line with Council Information Security Policies.

7.2 Personal information will be safeguarded from accidental and deliberate threats to confidentiality and integrity

## **8. Policy Review**

This policy will be reviewed by the Head of Internal Audit periodically and when relevant legislative changes are enacted.

## **9. Contact Officer / Guidance**

For clarification or guidance in connection with this policy, please use the following contact details

Shail Shah - Head of Internal Audit  
Tel: (0115) 8764245  
[email:shail.shah@nottinghamcity.gov.uk](mailto:shail.shah@nottinghamcity.gov.uk)

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