



Friday, 6 March 2020

Dear Sir/Madam

A meeting of the Governance, Audit and Standards Committee will be held on Monday, 16 March 2020 in the Council Chamber, Council Offices, Foster Avenue, Beeston NG9 1AB, commencing at 7.00 pm.

Should you require advice on declaring an interest in any item on the agenda, please contact the Monitoring Officer at your earliest convenience.

Yours faithfully

Chief Executive

To Councillors: S A Bagshaw (Vice-Chair)
E Cubley
R H Darby
M Hannah
M Handley
H G Khaled MBE
J M Owen

J P T Parker
M Radulovic MBE
P D Simpson
I L Tyler
D K Watts
E Williamson (Chair)

A G E N D A

1. APOLOGIES

To receive any apologies and notification of substitutes.

2. DECLARATIONS OF INTEREST

Members are requested to declare the existence and nature of any disclosable pecuniary interest and/or other interest in any item on the agenda.

3. MINUTES

(Pages 1 - 2)

The Committee is asked to confirm as a correct record the minutes of the meeting held on 2 December 2019.

Council Offices, Foster Avenue, Beeston, Nottingham, NG9 1AB

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4. EXTERNAL AUDIT PLAN 2019/20 (Pages 3 - 22)

This report provides the Committee with an overview on progress in delivering Mazar's responsibilities as the Council's external auditors.

5. STATEMENT OF ACCOUNTS 2018/19 - ACCOUNTING POLICIES (Pages 23 - 36)

To provide Members with any updates made to the Council's accounting policies in relation to the production of the 2019/2020 financial statements.

6. STATEMENT OF ACCOUNTS 2018/19 - UNDERLYING PENSION ASSUMPTIONS (Pages 37 - 40)

To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2019/2020 Statement of Accounts.

7. INTERNAL AUDIT PLAN 2020/21 (Pages 41 - 50)

To approve the Internal Audit Plan for 2020/21.

8. INTERNAL AUDIT PROGRESS REPORT (Pages 51 - 66)

To inform the Committee of the recent work completed by Internal Audit.

9. REVIEW OF STRATEGIC RISK REGISTER (Pages 67 - 78)

To recommend approval of amendments to the Strategic Risk Register and the action plans identified to mitigate risks.

10. WORK PROGRAMME (Pages 79 - 80)

To consider items for inclusion in the Work Programme for future meetings.

GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

MONDAY, 2 DECEMBER 2019

Present: Councillor E Williamson, Chair

Councillors: S A Bagshaw
S J Carr (substitute)
E Cubley
M Handley
H G Khaled MBE
J M Owen
J P T Parker
M Radulovic MBE
P D Simpson
I L Tyler

Apologies for absence were received from Councillors R H Darby, M Hannah and D K Watts.

29 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

30 **MINUTES**

The minutes of the meeting held on 23 September 2019 were confirmed and signed as a correct record.

31 **CIPFA STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT**

The Committee noted the updated CIPFA Statement on the Role of the Head of Internal Audit in public service organisations.

32 **INTERNAL AUDIT PROGRESS REPORT**

The Committee were informed of the recent work completed by Internal Audit.

33 **REVIEW OF STRATEGIC RISK REGISTER**

The Committee considered the amendments to the Strategic Risk Register and the action plans identified to mitigate risks. The Committee requested that further information be provided at a future meeting in regards to managing climate change and its associated risks.

RESOLVED that the amendments to the Strategic Risk Register and the actions to mitigate risks as set out in appendix 2 be approved.

34 WORK PROGRAMME

The Committee considered the Work Programme.

RESOLVED that the Work Programme be approved, subject to the inclusion of further reports on Governance Arrangements and progress made against Major Contracts.

Audit Strategy Memorandum
Broxtowe Borough Council
Year ending 31 March 2020





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2. Your audit engagement team
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8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Mazars' client service commitment

This document is to be regarded as confidential to Broxtowe Borough Council. It has been prepared for the sole use of the Governance, Audit and Standards Committee as the appropriate sub-committee charged with governance . No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Governance, Audit and Standards Committee Members
Broxtowe Borough Council,
Town Hall,
Foster Avenue
Beeston
Nottingham
NG9 1AB

March 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Broxtowe Borough Council for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Broxtowe Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07875 974291.

Yours faithfully



Mark Surridge
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Broxtowe Borough Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance, Audit and Standards Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



Mark Surridge
Director and Engagement Lead

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Anita Pipes
Manager

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Tel: 07919 395251

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

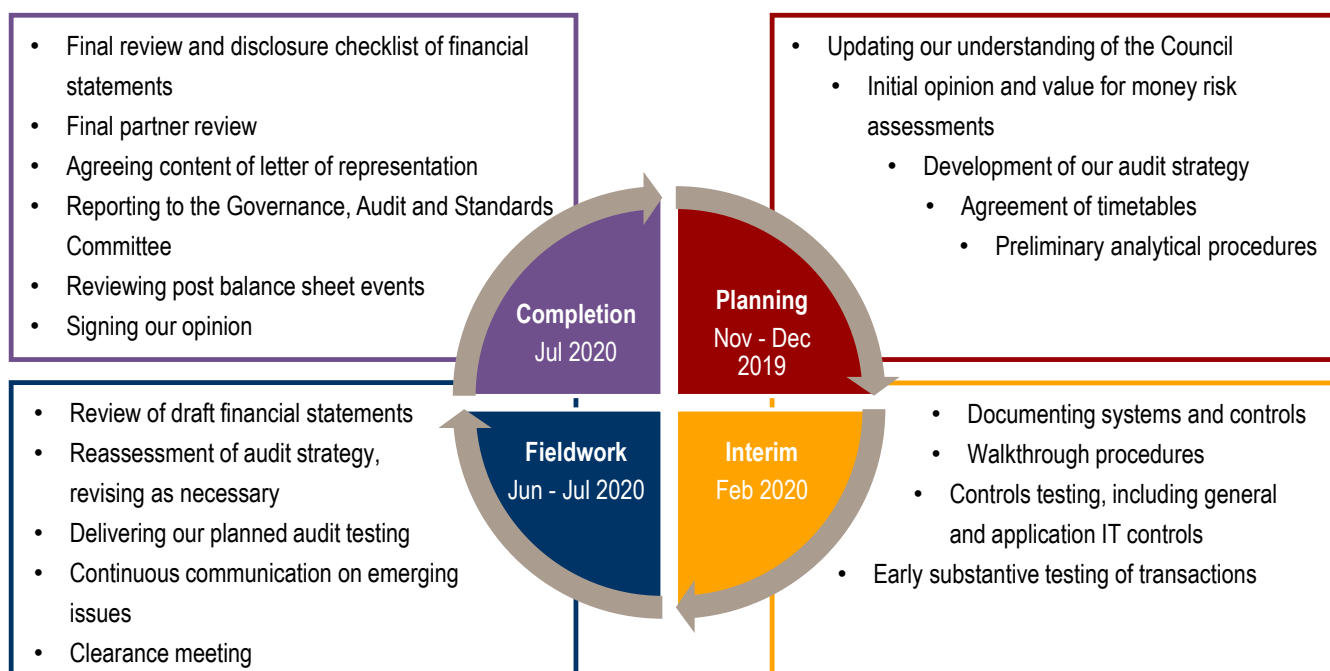
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

We do not plan to rely on the work of internal audit.

Group Scope

The Council has obtained an exemption from audit for Liberty Leisure, which forms part of the Council's group accounts. The subsidiary is judged to be out of audit scope, but we will perform certain procedures to inform our view on the group accounts.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham <i>Actuary for Nottinghamshire Pension Fund</i>	PWC <i>Consulting actuary appointed by the NAO</i>
Property, plant and equipment valuation	M Kirk (MRICS) <i>The Council's internal valuer</i>	Not applicable
Financial instrument disclosures	Arlingclose <i>Treasury management advisors</i>	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Nottinghamshire Pension Fund <i>The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.</i>	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk**

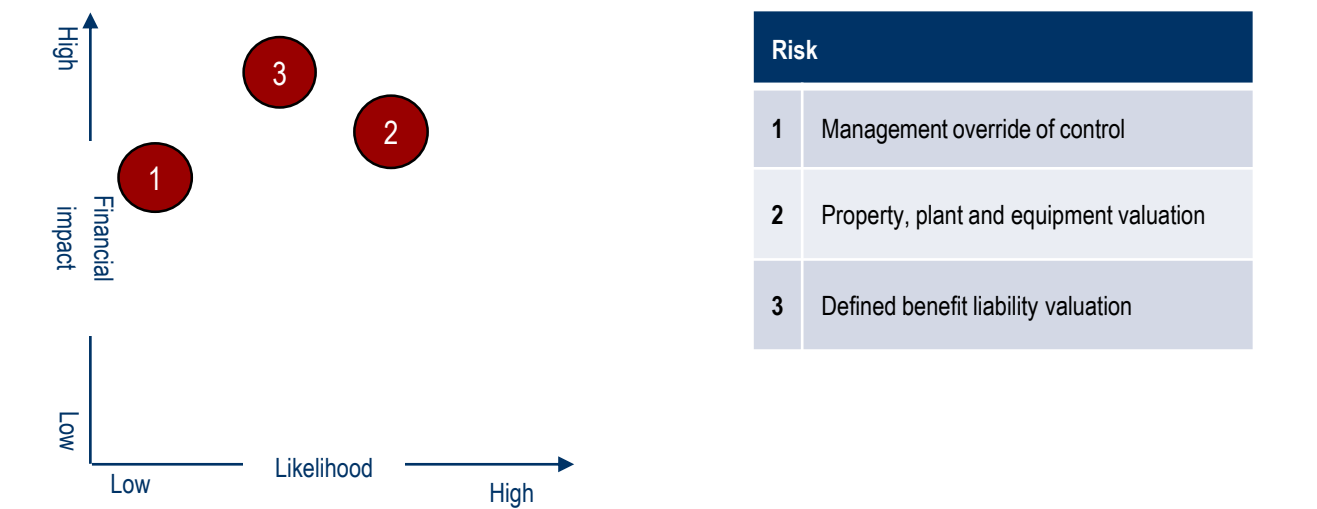
A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.
- Enhanced risk**

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
 - key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk**

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council’s key financial systems and general IT controls. We will update the Governance, Audit and Standards Committee where we subsequently identify any additional risks.



4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance, Audit and Standards Committee.

Significant risks

	Description of risk	Planned response
1	Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. We will use a computer audit analytical technique (CAAT) to efficiently identify journals with risk characteristics and test 100% of such adjustments to the financial ledger.
2	Valuation of land and buildings, investment properties (where material) and assets held for sale (where material) The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's Property, Plant and Equipment that is held at a valuation. The Council uses an internal valuation expert to provide information on valuations because there is a high degree of estimation uncertainty caused by significant judgements and number of variables involved in providing valuations. We have therefore identified the valuation of material balances of land and buildings, investment properties (if material) and assets held for sale (if material) to be an area of significant audit risk.	We will consider the Council's arrangements for ensuring that PPE values are reasonable and will assess whether valuation movements are in line with market expectations using available indices where appropriate. We will also assess the competence, skills and experience of the valuer. We will test a sample of revaluations in year to valuation reports and supporting calculation sheets to ensure these are consistent with underlying source records (such as floor plans) in addition to challenging the methods and assumptions used by the valuer. Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate. In addition, we will assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	<p>Valuation of net defined benefit liability</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, in 2019/20 the local government pension assets and liabilities are subject to triennial revaluation, which will set the contribution rates for 2020/21 onwards. This results in an increased risk of material misstatement.</p>	<p>In relation to the valuation of the Council's defined benefit pension liability in addition to our standard programme of work in this area we will:</p> <ul style="list-style-type: none"> • review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office; • agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; • critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham; and • liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Consideration of other mandatory risks

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above, but set out our considerations in respect of fraudulent revenue recognition below:

	Description of risk	Planned response
1	<p>Fraudulent revenue recognition</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.</p>	<p>We do not consider this to be a significant risk for Broxtowe Borough Council as:</p> <ul style="list-style-type: none">• there is an overall low risk for local authorities;• there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and• the level of income that does not derive from either grant or taxation sources is low relative to the Council's overall income streams, and generally represents a number of low value, high volume transactions. <p>We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.</p>

5. VALUE FOR MONEY

Our approach to Value for Money

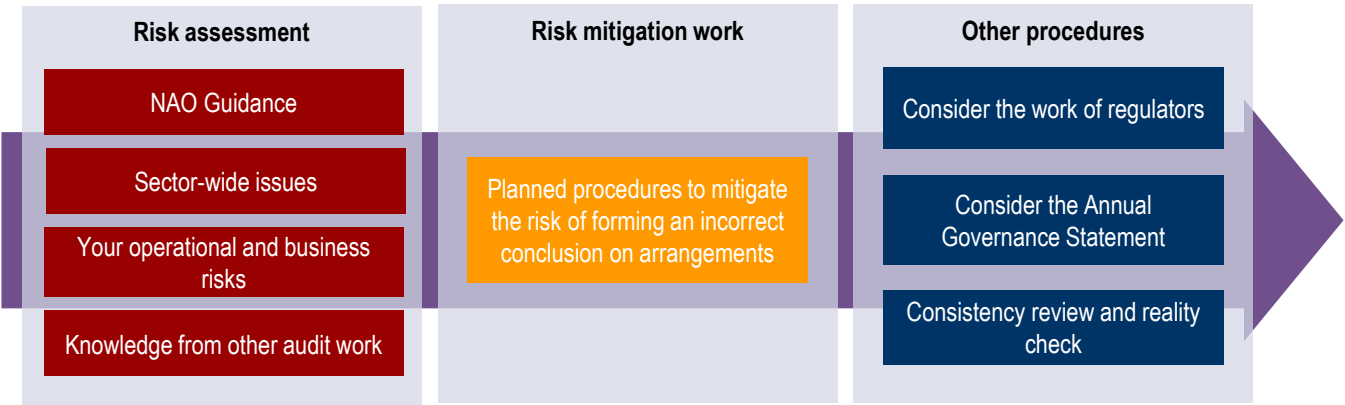
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO’s guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have identified a significant VFM risk in relation to financial resilience, as described on the following page.

We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a further risk to our VFM conclusion does exist and where any such risk is identified, these will be reported to the Governance, Audit and Standards Committee as part of our Audit Completion Report.

5. VALUE FOR MONEY (CONTINUED)

Significant risks (continued)

For the 2019/20 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
<p>Financial Resilience</p> <p>The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2019/20. In order to set a balanced budget a funding gap of £0.615m was met from General Fund reserves and this was approved by the Council in February 2019.</p> <p>The latest forecast shows that the Council is now anticipating withdrawing £1.269m from balances in 2019/20 as opposed to the initial £0.615m as shown above. This is due to the effect of budget carry forwards from 2018/19 of £0.327m plus other changes approved by the Policy and Performance and Finance and Resources Committees. Moving forward there will be continuing pressure on the Council's General Fund reserve to plug each years' budget deficit. The Council's 2020/21 budget papers show that the General Fund reserve is expected to fall from £6.048m at 1 April 2019 to 3.876 at 31 March 2021.</p> <p>The Medium Term Financial Strategy (MTFS) which projects the Council's position up to 2023/24 based upon a series of assumptions shows that the General Fund reserve will continue to be utilised each year and fall below the minimum balance required of £1.5m in 2022/23 before becoming negative in 2023/24. This pressure upon the General Fund places the Council at increased risk should any adverse unknown or unexpected events occur.</p> <p>There will be significant changes in local government finances over the next few years, which will culminate in a major change in the way local government is financed from 2021/22 onwards. These include the anticipated Comprehensive Spending Review 2020, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50%). As the funding from 2021/22 onwards is unclear at this stage, the need for savings (or income generation) will continue to have a significant impact on the Council's financial resilience and reduce the burden on the need to utilise reserves to balance any deficits in the budget</p>	<p>We will consider whether the Council has arrangements in place to secure its financial resilience, specifically:</p> <ul style="list-style-type: none"> • That the MTFP has been updated to reflect known changes in funding, spending plans and the impact on Useable Reserves. • That the MTFP includes sensitivity analysis given the degree of variability and uncertainty in funding. • How and whether the Council has delivered planned savings in 2019/20. • Whether sufficient progress has been made to identify savings for 2020 onwards.

6. FEES FOR AUDIT AND OTHER SERVICE

Fees for work as the Council's appointed auditor

At this stage of the audit we expect to need to reflect the scale fee set by PSAA as communicated in our fee letter of 24 April 2019 and other matters listed below:

Service	2018/19 fee (plus VAT)	2019/20 fee (plus VAT)
Code audit work – scale fee	£35,807	£ 35,807
Additional work undertaken following changes to pension liabilities to take account of the McCloud/GMP adjustment. These additional fees were reported in our 2018/19 Audit Completion report which went to the Governance, Audit and Standards Committee meeting in September 2019.	£750	
Additional work to audit the transactions of the subsidiary company Liberty Leisure Limited.	£3,500	£3,500
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.	£0	To be confirmed*
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment.	£0	To be confirmed*
Total	£40,057	To be confirmed

* Subject to agreement with the Authority and approval by PSAA

Additional Work:

In common with all local government external auditors we are required to carry out additional procedures which were not expected when fees were set.

Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level and depth of work we do on:

- defined benefit pension schemes; and
- valuation of property, plant and equipment

We will discuss the driving factors with Council officers and the audit fee for 2019/20 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the approval process.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work on the transactions of the subsidiary Liberty Leisure at a fee of £3,500 plus VAT as set out in the table above. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Should the Council or entities within the Council's group wish us to undertake any other additional work, before agreeing to this we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Group Materiality	Single Entity Materiality
Overall materiality	£1,332,000	£1,213,000
Performance materiality	£999,000	£910,000
Trivial threshold for errors to be reported to the Governance, Audit and Standards Committee	£40,000	£36,000

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set at 2% using the benchmark of 2018/19 total gross expenditure at the surplus / deficit level. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Governance, Audit and Standards Committee.

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 2% of the benchmark based on the 2018/19 audited financial statements.

Based on the 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be in the region of £1,332,000 for the audit of the Group financial statements and £1,213,000 for the audit of the Council's single entity financial statements.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. We have set our performance materiality at 75% (increased from 65% last year) of our overall materiality being £999,000 for the Group and £910,000 for the Council's financial statements.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account. After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Item of account	Specific materiality
Officers' remuneration	£5,000 *
Members' allowances and expenses	£44,000
External audit costs	£8,000

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Governance, Audit and Standards Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £40,000 for the Group and £36,000 for the Council single entity financial statements based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Governance, Audit and Standards Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Governance, Audit and Standards Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>

Forthcoming audit changes

Matter	Year of application	Commentary
Value for Money Conclusion	2020/21	<p>The National Audit Office (NAO) has published the final draft of the new Code of Audit Practice 2020, confirming more robust narrative reporting requirement.</p> <p>The new Code comes into effect from April 2020 and will apply to the Council's 2020/21 financial year.</p> <p>There a number of changes to the Code, the most noticeable being the introduction of external audit commentary on a local authority's overall arrangements in securing value for money, with a focus on financial sustainability, governance, and improving value for money.</p>

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Report of the Deputy Chief Executive

STATEMENT OF ACCOUNTS 2019/2020 - ACCOUNTING

1 Purpose of Report

To provide Members with any updates made to the Council's accounting policies in relation to the production of the 2019/2020 financial statements.

2 Introduction

Prior to the completion of the Statement of Accounts 2019/2020, it is considered good practice that Members are given the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies will be applied to the treatment of all transactions that make up the Statement of Accounts to ensure the accounts present a true and fair view of the financial position of the Council as at 31 March 2020.

The 2019/2020 Statement of Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 (the Code), based upon International Financial Reporting Standards (IFRS).

3 Updates to the Statement

The 2019/2020 Code introduces amendments to:

- transfers of investment property
- foreign currency transactions
- treatment of income tax
- prepayment of financial instruments

These changes do not impact on any of the Council's policies.

Policy (vi) Charges to Revenue for Non-Current Assets has been updated to include the basis and useful life used to calculate depreciation on each asset type. This was previously disclosed as within the Notes to the Accounts.

The proposed Accounting Policies for 2019/2020 are set out in the appendix.

4 Financial Implications

There are no direct financial costs associated with the accounting policy updates.

Recommendation

The Committee is asked to RESOLVE that the Accounting Policies for 2019/2020 be approved.

Background Papers

Nil

APPENDIX**Accounting Policies****(i) General Principles**

The Statement of Accounts summarises the authority's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting 2019/20 supported by International Financial Reporting Standards (IFRS), International Accounting Standards and statutory guidance issued under section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Statement of Accounts has been prepared on a going concern basis. As required by IAS 1, it has been assumed that the Council will continue in operation for the foreseeable future.

(ii) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

An exception to the above relates to electricity and other similar quarterly payments which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

As regards private sector housing benefits, payments can relate to periods partly in advance and partly in arrears. The cut-off date applied to such payments is as near to the year end as possible and ensures consistency with the figures used to calculate government subsidy received on such payments.

Council housing rents become chargeable on the Monday of each week for the week ahead. Rent income is accounted for up to and including the last Monday in the financial year. For 2019/20 this has led to 53 weeks of Housing Rent due being charged on the Rent Accounting system. In accordance with proper accounting practice week 53 rent debit has been allocated in proportion between the 2019/20 and 20/21 financial year within the financial statements.

(iii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

(iv) Exceptional Items

When items of income and expense are material, their nature and amounts is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

(v) Prior Year Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effects of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. See note 2 for more details.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. See note 6 for more details.

(vi) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service

With the exception of works vehicles, depreciation is calculated on a straight line basis over the estimated useful life of the asset. The following useful lives have been used in the calculation of depreciation:

- Council Dwellings (Non Components) – 80 years
- Council Dwellings (Components) – 15 to 40 years
- Other Land and Buildings:
 - Council Offices - 60 years
 - Pavilions - 30 years
 - Cemetery Chapels - 30 years
 - Other - 40 years
- Vehicles, Plant, Furniture and Equipment – 5 years
- Infrastructure – 40 years

Any significant components identified in the revaluation of an asset are depreciated separately over their estimated useful life.

Works vehicles are depreciated over their estimated useful lives but with a greater depreciation charge in the early years to reflect the use and diminishing value of these assets.

Where an impairment loss is charged to the Comprehensive Income and Expenditure Statement, but there were accumulated revaluation gains in the Revaluation Reserve for that particular asset, an amount up to the value of that loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

The Council is not required to raise council tax or council housing rents to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. This is known as the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore reversed out of the General Fund (and Housing Revenue Account (HRA)) and replaced by the MRP. This is completed with an adjusting transaction with the Capital Adjustment Account within the Movement in Reserves Statement for the difference between the two. This ensures that depreciation, revaluation and impairment losses and amortisations have no overall effect on council tax or housing rent levels.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, require local authorities to approve an MRP policy at the beginning of each financial year on setting aside a sum of money from revenue for the repayment of principal on outstanding debt. From 2012/13 onwards the Council has approved a policy such that, for capital expenditure incurred before 1 April 2008, the MRP is based on 4% of the authority's Capital Financing Requirement for the General Fund. For General Fund capital expenditure incurred after 1 April 2008, the MRP is based upon the estimated life of those assets where the financing was provided by borrowing. The Council has also decided that no voluntary provision for the repayment of debt relating to the HRA should be made in 2019/20.

(vii) Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and sick leave and are recognised as an expense for service in the year in which employees render service to the Council.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund or Housing Revenue Account balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Nottinghamshire County Council. The scheme is a defined benefit scheme in that it provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the

projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices using a discount rate that reflects the time value of money and the characteristics of the liability.
- The assets of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year (allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked).
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years (debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Resources).
 - Net interest on the net defined benefit liability or asset (i.e. the net interest expense for the Council) – the change during the period in the net defined liability or asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement). This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset at the beginning of the period after taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.
- Re-measurements comprising:
 - The return on plan assets (excluding amounts included in net interest on the net defined benefit liability or asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Actuarial gains and losses (changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Nottinghamshire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities (not accounted for as an expense).

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means

that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

(viii) Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

(ix) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument, and are initially assessed at fair value and are carried at amortised cost. Annual charges to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

All borrowings shown in the Balance Sheet consist of the outstanding principal repayable plus accrued interest. Annual interest is charged to the Comprehensive Income and Expenditure Statement in accordance with the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment income and expenditure line in the

Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement or the Housing Revenue Account, regulations allow the impact on the General Fund and Housing Revenue Account Balance respectively to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement or the Housing Revenue Account to the net charge required against the General Fund or Housing Revenue Account Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Certain reserves are kept to manage the accounting processes for non-current fixed assets and retirement benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies below.

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss
- fair value through other comprehensive income

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

Financial Assets measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

All such assets held on the Balance Sheet consist of the outstanding principal receivable plus accrued interest. Annual interest is credited to the Comprehensive Income and Expenditure Statement in accordance with the loan agreement.

The Council has provided a number of “soft loans” to employees at less than market rates for the purchase of motor vehicles. These should be correctly shown in the Balance Sheet at fair value. However, the value of these loans is not considered to be material. Accordingly the value as shown in the Balance Sheet represents the value of any loans made less any repayments that have been received.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly, or remains low, losses are assessed on the basis of 12 month expected losses.

Financial Assets measured at Fair Value through Profit or Loss

Financial assets measured at fair value through profit or loss are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they occur in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement technique are categorised in accordance with the following:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Assets measured at Fair Value through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are recognised on the balance sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Annual income received from the financial instrument is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement when it becomes receivable by the authority.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement technique are categorised in accordance with the following:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

The Council can elect to classify certain instruments as Fair Value through Other Comprehensive Income, dependent on the contractual arrangements for the instrument.

For an elected financial asset fair value gains and losses are recognised as they occur in Other Comprehensive Income within the Comprehensive Income and Expenditure Statement but are balanced by an entry in the Financial Instrument Revaluation Reserve. In all other circumstances the gain or loss is recognised in the Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement before being transferred to the Financial Instrument Revaluation Reserve via the Movement in Reserve Statement

On derecognition of an elected financial asset the balance on the Financial Instrument Revaluation Reserve is transferred to the General Fund via the Movement in Reserves Statement. In all other circumstances the balance on the Financial Instrument Revaluation Reserve is transferred to the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

(x) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution

have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired by using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

(xi) Heritage Assets

The Council's Heritage Assets consist of the DH Lawrence Birthplace Museum building and a painting by Dr Ala Bashir, a respected sculptor and painter, of DH Lawrence which is linked to his most famous novel, *Lady Chatterley's Lover*. The museum building is held for its historical and artistic significance and to promote knowledge and culture. The DH Lawrence Birthplace Museum is recognised and measured (including the treatment of depreciation and revaluation gains and losses) in accordance with the Authority's accounting rules on property, plant and equipment. The building was revalued at 31 March 2017 in accordance with the Council's 5 year revaluation cycle for such assets. The painting was donated to the Council in 2008.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. For example, this may be where the asset has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

(xii) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where

it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Research expenditure cannot be capitalised.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sales proceeds greater than £10,000) the Capital Receipts Reserve.

(xiii) Interests in Companies and Other Entities

The authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. Liberty Leisure Ltd is a wholly owned subsidiary of the authority which manages the provision of leisure and culture services and its accounts are consolidated with the authority's in accordance with IAS 27. See also policy xvi below.

(xiv) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at cost. Whilst the Code of Practice on Local Authority Accounting 2019/20 requires inventories to be shown at the lower of cost and net realisable value, a departure from this is permitted under IFRS due to:

- the value of inventories not being considered to be material.
- the cost of analysing inventories between cost and net realisable value outweighing the value to the user of the accounts.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year

(xv) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The Council does not currently have any investment properties.

(xvi) Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity.

Jointly controlled assets are items of property, plant and equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Whilst the Council does not strictly have any jointly controlled operations and jointly controlled assets in line with the definitions above, the Council has a 50% interest in the Bramcote Bereavement Services Joint Committee with the other 50% relating to Erewash Borough Council. Whilst the Bramcote Bereavement Services Joint Committee is a separate entity in its own right, its decision making and operational arrangements fulfil many of features associated with a jointly controlled operation. Therefore, the Council recognises 50% of the assets and liabilities of the Joint Committee on its Balance Sheet and debits and credits the Comprehensive Income and Expenditure Statement with 50% of the expenditure and income of the Joint Committee.

This is also recognised in the Movement in Reserves Statement and the Cash Flow Statement as appropriate.

(xvii) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent upon the use of specific assets.

Accounting standards yet to be adopted – Leasing

New standards in respect to leasing come into effect from 1 April 2020 which will change the accounting treatment of finance and operating leases. The Council is assessing the implications but considering the low number of leases the Council currently holds as lessee the impact is not considered to be material.

Report of the Deputy Chief Executive

STATEMENT OF ACCOUNTS 2019/2020 – UNDERLYING PENSION ASSUMPTIONS

1 Purpose of Report

To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2019/2020 Statement of Accounts.

2 Introduction

IAS 19 - Employee Benefits is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts. The basic requirement of IAS 19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date. The proposed assumptions for 2019/20 are shown in the appendix.

The Council will use the calculated costs and the underlying assumptions based upon the advice of the actuary of the Nottinghamshire County Council Pension Fund, Barnett Waddingham, and the administering authority (Nottinghamshire County Council), in preparing the annual Statement of Accounts. A formal actuarial valuation is carried out every three years, the last being as at 31 March 2016. The Actuary's final report for 2019/2020 is due to be received on 17 April 2020. All of the figures relating to IAS 19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers' contributions and not the charge calculated in accordance with IAS 19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern

Recommendation

The Committee is asked to NOTE the assumptions to be used in the calculation of pension figures for 2019/2020

Background Papers

Nil

APPENDIX

Proposed Financial Assumptions for 2019/2020

The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used and this year's proposed assumptions are listed below:

- **Corporate bond yields.** This is used to derive the discount rate which is applied to the employer's liabilities to calculate their future values. The rates used are those that match the duration of the employer's liability.
- **Expected Return on Assets.** The actuaries anticipate that a typical local Government Pension Fund might achieve a positive return of 12% in the year to 31 March 2020 although this may vary depending on the individual funds investment strategy.
- **Inflation Expectations.** The levels of future Retail Prices Inflation (RPI) are assessed on the basis of the yields on fixed interest and index linked government securities over the period of the duration of the liabilities. The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI) which historically is lower than the Retail Prices Index. The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of between 0.8% and 0.9% dependent on the duration of the employer's liabilities
- **Salary Increases** – The actuaries have proposed that salary increases are in line with CPI to 2020, and then they increase in line with CPI plus 1.5%.

The overall impact of the assumptions for an average employer is set out below but it should be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Broxtowe may be different from the assessment below.

Changes in Actuary's Assumptions upon Employer's Liability from 2018/2019

Assumption	Duration of Individual Employee Liability (Years)			
	Less than 10	10 to 15	15 to 20	Greater than 20
Effect of change in discount rate on employer's liability	Increase of 6%	Increase of 8%	Increase of 11%	Increase of 13%
Change in inflation on employer's liability	Decrease of 3%	Decrease of 2%	Decrease of 3%	Decrease of 5%
Overall impact	Increase of 4%	Increase of 8%	Increase of 10%	Increase of 13%

Supreme Court ruling in McCloud/Sargeant case

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015.

The first case (McCloud) ruled in favour of the claimants whilst the second (Sargeant) was ruled against. Both rulings were appealed and subsequently linked by the Court of Appeal. In December 2018 the Court of Appeal ruled the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. As yet a remedy has not been agreed and applied so it is not yet clear how this judgement may affect the Local Government Pension Scheme (LGPS) members' past or future service benefits. It has however been noted by Government that it expects to have to amend all public service scheme, including the LGPS. An adjustment to reflect the decision of the Supreme Court was made in Broxtowe's accounts for 2018/19.

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Report of the Chief Audit and Control Officer

INTERNAL AUDIT PLAN 2020/21

1. Purpose of report

To approve the Internal Audit Plan for 2020/21.

2. Detail

The Public Sector Internal Audit Standards (the 'Standards') requires the Chief Audit and Control Officer, as the Council's designated 'chief audit executive', to prepare an annual risk based audit plan.

The Internal Audit Plan governs the activity for the year. An audit report is produced at the completion of each assignment with recommendations for improvement. Regular progress reports covering all internal audit activities are submitted to this Committee for scrutiny. The Committee can request further audit reviews to be undertaken and can request other Committees to investigate matters arising from any activities within their remit.

The proposed Internal Audit Plan for 2020/21 is included in the appendix for consideration. The plan has been prepared in accordance with the principles of the Internal Audit Charter. The plan has recognised the Council's priorities as outlined in the Corporate Plan and links closely to the corporate risk management and business planning processes having been prepared with due consideration to the identified strategic risks. The Chief Audit and Control Officer has also considered the valuable comments received regarding key risks and sources of assurance from individual members of the General Management Team and Heads of Service.

Recommendation

The Committee is asked to RESOLVE that the Internal Audit Plan for 2020/21 be approved.

Background papers

Nil

APPENDIX

INTERNAL AUDIT PLAN 2020/21

1. INTRODUCTION

1.1 Background

The Internal Audit Plan sets out the proposed coverage for Internal Audit work in 2020/21. The mandate for the plan is derived from the Public Sector Internal Audit Standards ('the Standards') produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors (IIA).

The Standards require the periodic preparation of a risk-based plan, which must be linked to a strategic high-level statement of how the service will be delivered and developed in accordance with the Internal Audit Charter and how this links to the Council's objectives and priorities.

The core work of Internal Audit is derived from the statutory responsibility in the Accounts and Audit Regulations 2015 that requires the Council to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. The Standards and the Local Government Application Note constitute proper practices so as to satisfy the requirements for larger relevant bodies as set out in the Regulations.

The Governance, Audit and Standards Committee (the designated 'audit board') should review and assess the annual internal audit work plan, although the development of the risk-based plan remains the responsibility of the Chief Audit and Control Officer after consultation with senior management and the Committee.

1.2 Internal Audit Charter

The Standards require the purpose, authority and responsibility of internal audit activity to be formally documented in a charter document. The Governance, Audit and Standards Committee approved the current Internal Audit Charter on 29 November 2017.

Internal Audit will govern itself by adhering to the Standards, which are based upon the Institute of Internal Auditors' mandatory guidance including the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing*. Supplementary guidance issued and endorsed by the relevant internal audit standard setters as applicable to local government will also be adhered to along with the Council's relevant policies and procedures and the internal audit manual. Non-conformance with the Standards shall be reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee.

1.3 Aims of the Plan

Internal Audit activity is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The Internal Audit Plan will support an opinion based on an assessment of the design and operation of the internal control environment and the adequacy and effectiveness of controls noted from risk-based audit assignments carried out during the year. The aim of the plan is to:

- Deliver a risk-based audit programme through a detailed risk assessment of systems and services across the Council
- Be proactive in looking at what risks the Council is facing and trying to minimise the impact of these risks through audit work
- Add value by providing practical, value-added recommendations in areas of significant risk and by working with senior management in attempting to save resources and enhance controls wherever possible
- Provide assurance to senior management and the Governance, Audit and Standards Committee.

1.4 Developing the Plan

The Internal Audit Plan is designed to support the Chief Audit and Control Officer's annual opinion on the overall adequacy and effectiveness of the control environment. The required basis for forming this opinion is:

- An assessment of the design and operation of the overall internal control environment, governance and risk management arrangements
- An assessment of the adequacy and effectiveness of controls, based upon the results of the risk-based audit assignments that are reported during the course of year.

It follows that an effective risk-based audit plan should focus resources into areas of principal risk. The plan has been prepared in accordance with the requirements of the Internal Audit Charter and has been informed by:

- A review of the risks contained within the Strategic Risk Register and Business Plans;
- Consideration of progress made with the action generated by the Annual Governance Statement process;
- Consultation with Chief Officers and other senior managers to identify key auditable areas based on an assessment of corporate priorities and current and anticipated future issues and risks; and
- An understanding of the challenges to the Council to deliver its objectives within legislation and the current environment.

The allocations set out in the plan for each review will include time spent on researching and preparing the audit programme, terms of reference, completing site work, testing and the drafting and reviewing of the audit report. The timings assume that the expected key controls are in place and working effectively. Further substantive testing may be required should an assessment of key controls provide limited assurance and additional time may be required to carry out such testing.

The Internal Audit Plan will be regularly reviewed. If additional risks are identified and/or there are changes to priorities during the year, the plan will be reconsidered in conjunction with the Deputy Chief Executive. Any significant changes to the plan will be reported back to the Governance, Audit and Standards Committee for approval.

1.5 Resourcing the Plan

The net resources available in 2020/21 are 361 audit days.

The amount of assurance work proposed is set at 286 days. This equates to an increase of 4% when compared to planned assurance work delivered in the current year. This is due to a full establishment being anticipated in 2020/21. The coverage in terms of the number of high risk assurance audits proposed to be delivered will be similar.

A further 10 days will be provided to support the Council and its wholly owned leisure company, Liberty Leisure Limited, with assurance work relating to its leisure centre operations and the museum. The plan currently includes provision for 25 days to be completed as part of the Internal Audit collaboration with Erewash Borough Council.

In addition, the plan includes 40 days for corporate fraud and corruption prevention activity. The Governance, Audit and Standards Committee approved an updated Fraud and Corruption Policy in March 2017. The Council's approach to fraud and corruption proposes that Internal Audit will take a prominent role in leading and co-ordinating anti-fraud and corruption activities. Internal Audit will be supported in this by engaging specialist fraud investigation services as necessary from local authority partners.

Finally, 25 days are allocated towards audit follow-up work and 'contingency' for special investigations, projects, value for money work and consultancy.

1.6 Reporting and Relationships

The Internal Audit Charter establishes the reporting and relationships, including the reporting arrangements for individual assignments and for the periodic reporting of activities to the Governance, Audit and Standards Committee. The relationships with elected Members; Chief Officers and Senior Management Team; the external auditors; and other assurance providers are also determined in the Charter.

In accordance with the Standards, the Chief Audit and Control Officer will deliver a formal assessment of the design and operation of the overall internal control environment, governance and risk management arrangements and an opinion on the adequacy and effectiveness of controls, based upon the results of the risk-based audit assignments reported during the year. This opinion will be formally recorded in the Internal Audit Annual Review Report to be presented to the Governance, Audit and Standards Committee.

Internal Audit will bring to the attention of the Deputy Chief Executive and the Committee any significant internal control issues that it feels should be declared in the Council's Annual Governance Statement.

1.7 Performance Monitoring

The work of Internal Audit is regularly reviewed to provide assurance that it complies with the Standards, conforms to other relevant professional standards and meets the requirements of the Internal Audit Charter.

Service delivery will be monitored as part of a quality assurance and improvement programme. This will include the regular reporting of progress to the Governance, Audit and Standards Committee, self-assessment and external quality assessment against the Standards, assessment of client feedback and production of performance indicators.

2. SUMMARY OF AUDIT DAY ALLOCATIONS

The following table summarises the allocation of days to each department.

	<u>Audit Days</u>
Deputy Chief Executive's Department	
- Corporate	10
- Revenues, Benefits and Customer Services	43
- Finance Services	19
- Other Department	26
Chief Executive's Department	
- Corporate	18
- Housing	59
- Other Department	43
Strategic Director's Department	
- Corporate	5
- Environment	35
- Other Department	28
Assurance Work	286
Trading Companies – Liberty Leisure Limited	10
Corporate Counter Fraud Activities	40
Contingency (including Internal Audit Follow-up Work, Special Investigations, Projects, Value for Money and Consultancy)	25
Net Audit Days	361

3. DETAILED INTERNAL AUDIT PLAN

The following tables provide a detailed breakdown of the audits planned for 2020/21. These reviews have been categorised as follows:

- Category A, being the review of key financial systems, such as Council Tax, Rents and Benefits that are the Section 151 Officer's audit priority areas and which are reviewed annually.
- Category B, being high risk/profile areas that should be reviewed and followed-up on a yearly basis.
- Category C, being the audit of operational activities that have been identified as medium to high risk that should be reviewed on at least a cyclical basis.

DEPUTY CHIEF EXECUTIVE'S DEPARTMENT	Category	Days
Corporate		
Procurement and Contract Management	B	10
Revenues, Benefits and Customers Services		
Benefits (including Welfare Reform)	A	15
Business Rates	A	10
Council Tax	A	10
Sundry Debtors	A	8
Finance Services		
Bank Reconciliation	A	3
Creditors and Purchasing	A	10
Treasury Management	A	6
Property Services		
Health and Safety (Strategic)	B	10
Car Parks (including inspection and maintenance)	C	8
Utilities – Water and Energy	C	8
Total Deputy Chief Executive's Department		98

CHIEF EXECUTIVE'S DEPARTMENT	Category	Days
Corporate		
Governance (including Culture and Ethics etc.)	B	10
Climate Change	B	8
Housing		
Rents (including Welfare Reform; Evictions Protocol)	A	12
Housing Delivery Plan (including New Builds; Property Buy-Back)	B	10
Housing Management System	B	8
Gas Servicing and Maintenance	B	8
Housing Voids Management	B	8
Garages	C	5
Leasehold Properties (Service Charges)	C	8
Neighbourhoods and Prosperity		
Planning Applications Process (Consultancy)	C	8
Planning Enforcement	C	10
Section 106 Agreements	C	5
Public Protection (including Human Resources)		
Human Resources (including Skills; Sickness; Apprenticeships)	B	10
HiMO Licences	C	5
Public Health Funerals	C	5
Total Chief Executive's Department		120

STRATEGIC DIRECTOR'S DEPARTMENT	Category	Days
Corporate		
Declarations of Interest	C	5
ICT and Corporate Communications		
Computer/Cyber Risk	B	12
Payroll		
Payroll (including Officers Allowances)	A	8
Administration and Electoral Services		
Cash Receipting	A	8
Environment		
Operational Risk Management (incl. Risk Assessment)	C	5
Fuel Management	C	10
Waste Management	C	10
Neighbourhood Wardens	C	10
Total Strategic Director's Department		68

LIBERTY LEISURE LIMITED	Category	Days
Leisure Centre Operations (Kimberley Leisure Centre)	LLL	8
DH Lawrence Birthplace Museum (Stock/Sales)	LLL	2
Total Liberty Leisure Limited		10

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Report of the Chief Audit and Control Officer

INTERNAL AUDIT PROGRESS REPORT

1. Purpose of report

To inform the Committee of the recent work completed by Internal Audit.

2. Detail

Under the Council's Constitution and as part of the overall corporate governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

A summary of the reports issued and progress against the agreed Internal Audit Plan for 2019/20 is included at appendix 1. A brief narrative of the Internal Audit work completed since the previous meeting of this Committee is also included.

Internal Audit has also reviewed progress made by management in implementing agreed actions within six months of the completion of the respective audits. Details of this follow-up work are included at appendix 2. Where agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

Further progress reports will be submitted to each future meeting of this Committee. A final report will be prepared for Members' consideration after the end of the financial year detailing the overall performance and productivity of Internal Audit for 2019/20.

Recommendation

The Committee is asked to NOTE the report.

Background Papers

Nil

APPENDIX 1

INTERNAL AUDIT REPORTS ISSUED SINCE APRIL 2019

No	Audit Title	Report Issued	Assurance Opinion	Significant Actions	Merits Attention
01	Erewash BC – Risk Management	09/04/19	n/a	-	-
02	Financial Appraisal – Durban House	12/04/19	n/a	-	-
33	Commercialisation	29/04/19	Substantial	0	0
34	Bank Reconciliation	20/05/19	Substantial	0	0
35	Key Reconciliations	28/06/19	Substantial	0	1
36	Disabled Adaptations and Lifeline Service	28/06/19	Substantial	0	1
03	Payroll (including Officers Allowances)	28/06/19	Reasonable	1	0
38	Tenancy Management (incl. Housing ASB)	12/07/19	Substantial	0	0
04	Asset Register	12/08/19	Substantial	0	0
05	Financial Appraisal	15/08/19	n/a	-	-
06	Benefits	05/09/19	Reasonable	1	1
07	Sundry Debtors	06/09/19	Reasonable	0	3
08	Asset Management	16/10/19	Substantial	0	1
09	Bramcote Crematorium	21/10/19	Substantial	1	1
10	CCTV	30/10/19	Substantial	0	1
11	Planning Income Reconciliation	06/11/19	n/a	-	-
12	Financial Appraisal – The Square	13/11/19	n/a	-	-
13	Recycling	14/11/19	Substantial	0	1
14	Local Elections	15/11/19	Reasonable	0	2
15	Electrical Testing	15/11/19	Substantial	0	1
16	Choice Based Lettings	18/11/19	Reasonable	0	3
17	Financial Appraisal – The Square	21/11/19	n/a	-	-
18	Financial Appraisal – The Square	20/12/19	n/a	-	-
19	Human Resources	20/12/19	Substantial	0	1
20	NNDR	24/12/19	Substantial	0	2
21	Rents	09/01/20	Substantial	0	0
22	LLL – Chilwell Olympia	10/01/20	Substantial	0	1
23	LLL – Online Ticket Portal	28/01/20	Substantial	0	0
24	Financial Appraisal – The Square	31/01/20	n/a	-	-
25	Erewash BC – Risk Management	31/01/20	n/a	-	-
26	Procurement and Contract Management	28/02/20	LIMITED	1	5
27	Treasury Management	28/02/20	Substantial	0	2

REMAINING INTERNAL AUDIT PLAN 2019/20

No	Audit Title	Progress
	Kimberley Depot (including Security)	Draft report issued
	Cash Receipting	Draft report issued
	Creditors and Purchasing	Draft report issued
	Local Authority Trading Company	Draft report issued

REMAINING INTERNAL AUDIT PLAN 2019/20 (Continued)

No	Audit Title	Progress
	Financial Resilience	Draft report issued
	Enforcement	Draft report issued
	Council Tax	Draft report issued
	Independent Living Service	Ongoing (Nearing completion)
	Key Reconciliations	Ongoing (Nearing completion)
	Bank Reconciliation	Ongoing (Nearing completion)
	Housing Repairs	Ongoing (Nearing completion)
	Beeston Town Centre Redevelopment	In progress
	Information Governance (GDPR, FOI etc.)	In progress
	Computer/ICT (including Cyber Risk)	Expected to commence in Q4
	Whistleblowing Policy and Complaints	Expected to commence in Q4
	Corporate Governance	Expected to commence in Q4
	Operational Risk Management	Expected to commence in Q4
	Planning Applications Process	To be deferred to Internal Audit Plan 2020/21
	Health and Safety	To be deferred to Internal Audit Plan 2020/21

COMPLETED AUDITS

A report is prepared for each audit assignment and issued to the relevant senior management at the conclusion of a review that will:

- include an overall opinion on the adequacy of controls within the system to provide assurance that risks material to the achievement of objectives are adequately managed – the opinion being ranked as either ‘Substantial’, ‘Reasonable’, ‘Limited’ or ‘Little’ assurance;
- identify inadequately addressed risks and non-effective control processes;
- detail the actions agreed with management and the timescales for completing those actions; and
- identify issues of good practice.

Recommendations made by Internal Audit are risk assessed, with the agreed actions being categorised accordingly as follows:

- Fundamental – urgent action considered imperative to ensure that the Council is not exposed to high risks (breaches of legislation, policies or procedures)
- Significant – action considered necessary to avoid exposure to significant risk.
- Merits Attention (Necessary Control) – action considered necessary and should result in enhanced control or better value for money.
- Merits Attention – action considered desirable to achieve enhanced control or better value for money.

The following audit reports have been issued with key findings as follows:

1. Financial Appraisal – The Square (*three reports*)

Internal Audit has completed three separate financial appraisals of companies and sole traders expressing an interest to lease a space within the Business Hub at The Square, Beeston. The requests were received from the Senior Economic Development Officer, with management wanting consideration of the financial viability of these businesses in order to assess the level of risk to the Council.

The findings and suitable recommendations were reported to the Head of Neighbourhoods and Prosperity, Planning Regeneration and Development Manager, Senior Economic Development Officer, Head of Property Services and Estates Manager.

2. Human Resources

Assurance Opinion – **Substantial**

The focus of the latest Human Resources audit was to seek assurance that recruitment, sickness absence and training is performed and managed in accordance with Council policy and procedures.

It was pleasing to report that the Council has an appropriate framework in place for the management of these aspects of Human Resources. The review indicated an area for improvement with a 'merits attention - necessary control' recommendation being proposed relating to the completeness of record keeping.

Whilst acknowledging that the absence of documentary evidence does not necessarily indicate that a procedure has not been followed or policy fully complied with, it is important for officers to be able to demonstrate compliance with established procedures. It was noted that escalation procedures had been re-established for the probationary process and the completion and submission of the relevant forms had improved. Assurance was also gained from new employees receiving an induction session (including basic health and safety training) within the first two days of the commencement of their employment.

The proposed action was agreed by the Head of Public Protection and the Human Resources Manager. The probationary process for new employees is being reviewing, with an expected outcome being that management of the probationary process will return under the direct control of the HR Manager, including chase-up and escalation in instances of non-compliance. The HR Manager will deliver a briefing to a forthcoming Senior Management Team meeting to emphasise the importance and benefits of completing the probationary process. Furthermore, officers will be reminded to ensure that all expected documentation for personal files relating to the induction process are received. In the medium-term, the potential for storing evidence of the induction process onto Broxtowe Learning Zone will be investigated.

Internal Audit also noted that the Council has migrated arrangements for the engagement of interim, temporary and agency staff to a third party platform. The platform provides a single online system for the sourcing, monitoring and payment of interim staff and delivers savings in both officer time and cost savings through the reduction of agency commission spend. The platform also provides a procurement compliant solution to the recruitment of interim personnel. The rollout of the platform has been substantially completed across the Council and should continue to be monitored by the Human Resources Manager.

3. NNDR

Assurance Opinion – **Substantial**

The specific audit objectives sought to provide assurance that NNDR is correctly calculated; billed amounts are efficiently collected and accounted for; assurances are sought regarding the operation of the service contract with Ashfield District Council; any refunds and write-offs are valid and authorised; fraud risk is considered and measures put in place for the prevention and detection of fraud; and overall arrangements for NNDR Pooling are sufficient with the appropriate returns completed in an accurate and timely manner.

The Council continues to operate within an appropriate and well-established framework for NNDR. The review did indicate areas for improvement and two 'merits attention – necessary control' actions were proposed which should result in enhanced control and/or better value for money. These related to:

- The need to review and update the policy and guidance available on the Council's website, including consideration of consolidating the Business Rates and rate relief guidance into one document.
- The need for management to receive and review a full breakdown of differences between the NNDR1 and NNDR3 returns to enable any significant and/or unexpected variations to be investigated. The Council has recently procured software from Analyse Local that will more readily provide this information.

The actions were duly agreed by the Head of Revenues, Benefits and Customer Services.

4. Rents

Assurance Opinion – **Substantial**

Internal Audit reports that the Council has an appropriate framework in place for the administration of operations in respect of Rents. It was noted that the impact of the introduction of Universal Credit continues to be effectively managed.

A review of the Pre-Eviction Protocol for Rent Arrears was also completed. The Council has an appropriate framework in place for evictions, with the protocol being compliant with legislation. A sample case where eviction was considered on the grounds of rent arrears was reviewed. The findings were considered to

be satisfactory, with the action taken being reasonable and compliant with the steps outlined in the protocol.

No significant areas of concern were noted during the course of the audit. The audit findings arising did not indicate any significant areas for improvement and, accordingly, Internal Audit issued a clearance report on this occasion.

5. Chilwell Olympia (Liberty Leisure Ltd) Assurance Opinion – **Substantial**

Internal Audit has reviewed the systems and procedures operating at Chilwell Olympia. The terms of reference were agreed with the Liberty Leisure Managing Director and the Centre Manager prior to the commencement of the audit. The cost of this work will be recharged to Liberty Leisure.

Internal Audit sought to confirm whether adequate management control exists to provide assurance that:

- Amounts due for the hiring of sports facilities and similar services are efficiently collected.
- Purchasing is undertaken in an appropriate and efficient manner.
- Refunds are appropriately controlled.
- Inventories are maintained accurately.
- Operational health and safety risks relating to legionella, asbestos and fire are appropriately addressed.

It was pleasing to report that Liberty Leisure continues to maintain an appropriate framework for the administration of operations at Chilwell Olympia. The review did identify an area for improvement and one recommendation was made for management's consideration. This action related to the need to ensure that the updated Joint Use Agreement with Chilwell School and Nottinghamshire County Council is clear in terms of the roles and responsibilities associated with mitigating operational health and safety risks.

Internal Audit also identified potential efficiencies that may be offered by ongoing developments to the corporate purchasing system which should enhance the efficiency of purchase transactions, improve accessibility to records and enable the roll out of 'intelligent scanning' of invoices currently being implemented.

The necessary actions were agreed by the Liberty Leisure Managing Director and the Centre Manager.

6. Online Ticket Portal (Liberty Leisure Ltd) Assurance Opinion – **Substantial**

Internal Audit has also reviewed the systems and procedures operating in respect of the Online Ticket Portal operated by Liberty Leisure Limited.

The terms of reference, as agreed with the Managing Director, sought to confirm that adequate management control exist to provide assurance that the portal and related financial reconciliation process was operating effectively. The cost of this work will be recharged to Liberty Leisure.

Internal Audit reported that no significant areas of concern. Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

7. Erewash Borough Council – Risk Management

As part of its Internal Audit Collaboration arrangements with Erewash Borough Council, Internal Audit has completed a review of the systems and procedures operating in respect of Risk Management at Erewash which was carried out as part of the Erewash Internal Audit Plan for 2019/20.

8. Procurement and Contract Management Assurance Opinion – **Limited**

The specific terms of reference for this audit was to seek confirmation that confirm whether adequate management control exists to provide assurance that:

- Suitable frameworks are in place for procurement and commissioning activity and this is being adhered to across the Council, including the adoption of a strategy.
- Structured tendering procedures are followed which are compliant with procurement legislation and internal rules.
- Robust contract management is undertaken in an appropriate and structured manner by identified contract managers

Internal Audit was pleased to acknowledge the significant progress that has been made with procurement compliance since the previous audit. A new Procurement and Commissioning Strategy 2019-2024 has been adopted, with was developed with due consideration to procurement legislation (i.e. Public Contract Regulations 2015) and best practice.

The review has indicated further areas for improvement and recommendations were proposed in order to ensure that the processes and controls in place are effective. Internal Audit proposed a 'significant' action relating to the need to establish a corporate contract management framework to provide the appropriate quality assurance and ensure that maximum value is achieved, namely:

Structured Contract Management

Internal Audit reviewed the contract management arrangements in place, including the provision of training for contract managers. It was identified through discussions with the Interim Procurement and Contracts Officer that

contract management training is not provided for contract managers. There are inconsistent mechanisms in place for monitoring, reporting and feedback in relation to contracts. Furthermore, a formal end of contract review is not systematically undertaken to inform any future procurement exercises.

The lack of appropriate and structured contract management could lead to maximum value not being obtained and complications not being identified and resolved in a timely manner.

Internal Audit recommended that a comprehensive review of the contract management framework should be completed to include updating procedures and guidance; reviewing contract monitoring and reporting arrangements (including the setting of key performance indicators); and providing training for contract managers.

Agreed Action (Significant)

A Contract Management Strategy and Framework is being developed to expand upon the adopted Procurement and Commissioning Strategy. This will incorporate both strategic and operational contract management and a multi-layered approach for the 'softer' elements of supplier management and monitoring. A proposal was presented to General Management Team in February 2020 and will now be developed further.

The strategy will propose a three stage process: advising suppliers that the relevant Council's policies as listed in tender documentation will provide the minimum standards required for suppliers engaged by the Council; monitoring progress with suppliers reporting on performance; and undertaking annual strategic reviews for major contracts (by value and/or strategic importance) to consider all aspects of contract compliance, performance and value-for-money.

The framework will require stakeholders to periodically meet with contractors to discuss contract performance, with appropriate records maintained. Any issues can then be escalated accordingly. The process will also include regular dashboard and exception reporting to GMT.

An action plan is being developed as part of the rollout of the framework.

Managers Responsible

Head of Finance Services

Procurement and Contracts Officer

Target Date: 30 June 2020

The review also proposed five 'Merits Attention' actions (including three considered to be 'Necessary Controls') relating to the:

- Adoption of updated Financial Regulations (Contract Standing Orders) to support the new Procurement and Commissioning Strategy.
- Development of a procurement e-learning module to support the embedding of the Strategy and to complement the existing guidance available on the intranet and website.

- Evidencing of decision making when adopting a particular approach for a procurement opportunity.

- Retention of tender and contract documentation within the procurement folders to maintain a suitable management trail.
- Ensuring compliance with the Local Government Transparency Code 2015 for publishing requirements for procurement.

The actions were agreed by the Head of Finance Services, Chief Audit and Control Officer and the Interim Procurement and Contracts Officer. Internal Audit will complete appropriate follow-up work at six months from the date of the audit report and will report back to Committee accordingly

9. Treasury Management

Assurance Opinion – **Substantial**

The Council has an established framework for the administration of treasury management operations. The short and medium term cash flow forecasting processes were examined and found to be working adequately on a day-to-day basis. The Council is now using the specialist 'Arlingclose iDeal Trade' platform for investments and for new and replacement borrowing.

The review did indicate areas for improvement, with two 'Merits Attention – Necessary Control' actions being proposed. These related to the need to improve cash flow forecasting to take into account the best available data of known and estimated future income and expenditure, with the planning horizon extended to a rolling twelve months. The second action related to the need to complete a tender exercise for the expiring treasury advisors contract.

A suitable action plan was agreed by the Head of Finance Services.

Further reviews in respect of Bank Reconciliation; Cash Receipting; Council Tax; Creditors and Purchasing; Enforcement; Financial Resilience; Housing Repairs Independent Living Service; Key Reconciliations; Kimberley Depot (including Security); and Local Authority Trading Company are ongoing and the reports have yet to be finalised. These will be included in the next progress report to Committee.

Current Audit Performance

Overall 75% of planned audits for 2019/20 are near to completion as at 1 March 2020. This level of performance is similar to what was achieved at this stage in the previous year and the target of 90% is expected to be achieved.

APPENDIX 2

INTERNAL AUDIT FOLLOW-UP

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the audit.

The table below provides a summary of the progress made with agreed actions for internal audit reports issued between January 2018 and July 2019 (i.e. within six months of completion), excluding clearance reports. Those audits where all actions have previously been reported as completed have also been excluded from this list.

No	Audit Title	Report Issued	Assurance Opinion	Number of Actions (Significant in brackets)	Progress
21	Stores 2017/18	31/01/18	LIMITED	3 (2)	1 Outstanding
03	Procurement 2018/19	07/06/18	LIMITED	2 (1)	Latest Audit
04	Cemeteries 2018/19	25/06/18	Substantial	1	1 Outstanding
37	Serious and Organised Crime 2017/18	05/09/18	Reasonable	6	1 Outstanding
08	Legionella Prevention and Testing 2018/19	11/09/18	Reasonable	5	3 Outstanding
11	Commercial Props/Industrial Units 2018/19	04/10/18	Substantial	1	1 Outstanding
14	Energy (including Procurement) 2018/19	16/11/18	LIMITED	2 (1)	1 Outstanding
25	Information Governance 2018/19	01/03/19	Substantial	1	Latest Audit
29	Council Tax 2018/19	28/03/19	Substantial	2	Latest Audit
30	Safeguarding 2018/19	28/03/19	Substantial	1	Completed
35	Key Reconciliations 2018/19	28/06/19	Substantial	1	Latest Audit
36	Disabled Adaptation/Lifeline Service 2018/19	28/06/19	Substantial	1	Completed
03	Payroll 2019/20	28/06/19	Reasonable	1 (1)	1 Outstanding

Further details of progress being made with agreed actions that have not yet been fully implemented are included below along with comments from management reflecting any updates on progress. Evidence of implementation will not be routinely sought for all actions as part of this monitoring process. Instead, a risk-based approach will be applied to conducting further follow-up work.

Where the agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

OUTSTANDING ACTIONS

1. Stores		January 2018, Limited Assurance, Actions – 3
1.1 Procurement of Stores Items		Progressing
<u>Agreed Action</u> (Significant) Management will review all procurement and purchasing activity relating to Stores with a view to establishing a programme of retendering work to ensure that requirements are met in full. The use of established procurement frameworks will be considered for these contracts. The support of the Procurement and Contracts Officer will be important for the priority and high-complexity tenders. A suitable timetable for completing the review and renewal of these contracts will be agreed with the Procurement team. <u>Managers Responsible</u> Head of Environment; Transport and Stores Manager		
<u>Management Progress Report of the Transport and Stores Manager and the Procurement and Contracts Officer</u> Work continues to review all stores related procurement activity and to re-tender contract opportunities where appropriate to ensure compliance with procurement legislation and the Council’s Contract Standing Orders. A benchmarking exercise has been carried out and all current pricing is in-line with framework pricing (and in some cases more competitive). Whilst the Council clearly needs to ensure that it has compliant processes, this should be helping to ensure it is achieving value for money, not at its expense. The risk of an external challenge is low. The Procurement team is working with officers, including Stores, to look at the materials being purchased with a view to standardising items across the Council and its contractors. This will be carried out in parallel with the work to agree a contract with the Efficiency East Midlands (EEM) framework and will cover the material streams for electrical, plumbing and heating, joinery and ironmongery and building materials.		

2. Cemeteries		June 2018, Substantial Assurance, Actions – 1
2.1 Digitisation of Cemetery Records		Progressing
<u>Agreed Action</u> (Merits Attention – Necessary Control) A timetable for developing an efficient solution for maintaining a ‘one-stop’ effective and accurate electronic cemetery records will be produced. The progress made against this plan will then be monitored as appropriate by management (and Bereavement Services Committee). The replacement of the current software solution is considered to be a key part in this medium-term project. <u>Manager Responsible</u> Head of Property Services Revised target date – 31 May 2020		
<u>Management Progress Report of the Head of Property Services, the Bereavement Services Manager and the Procurement and Contracts Officer</u> This action has recommenced and is progressing, in conjunction with the ICT and Procurement teams. Tender documents are being finalised for advert with the submissions to be evaluated thereafter.		

3. Serious and Organised Crime	Sep 2018, Reasonable Assurance, Actions – 6
3.1 Training	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>Further targeted training to raise awareness of Serious and Organised Crime and its impact will be provided to managers and front-line staff in service areas that are at highest risk. This will include a briefing to a meeting of Senior Management Team. As part of the awareness programme, the latest updates and warnings will be provided via email and/or the Intranet by the Community Safety team.</p> <p><u>Manager Responsible</u> Head of Public Protection</p> <p style="text-align: right;">Revised target date – 31 May 2020</p>	
<p><u>Management Progress Report of the Head of Public Protection</u></p> <p>The Serious Organised Crime Strategy was approved by the Community Safety Committee on 19 September 2019. A targeted training programme is now being developed following adoption of the strategy to supplement the updates and advice already provided by the Community Safety team. This will include a briefing presentation to a forthcoming Senior Management Team.</p>	

4. Legionella	September 2018, Reasonable Assurance, Actions – 5
4.1 Health and Safety Audits	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>In accordance with the policy, Health and Safety will carry out annual audits of the processes relating to Legionella prevention/detection and report its findings to the Safety Committee. This process will include seeking assurances from Responsible Persons that appropriate testing has been undertaken and completing a sample of substantive reviews linked to the areas of highest risk.</p> <p>The review will cover all relevant Council properties, including premises being managed by Liberty Leisure Limited and the community facilities that are presently being tested by Property Services.</p> <p><u>Managers Responsible</u> Head of Property Services; Health and Safety Manager</p>	
<p><u>Management Progress Report of the Head of Property Services</u></p> <p>The Legionella Policy was reviewed, updated and presented to Safety Committee in February 2020. The designated persons list has been brought up-to-date and those with responsibilities for Legionella testing have been made aware of their responsibilities. Refresher training is being arranged for all staff and will be completed by May 2020.</p> <p>Whilst the audit programme has yet to be developed, this work should be substantively completed by May 2020.</p>	

4. Legionella Prevention and Testing (continued)	
4.2 Training	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>The Legionella Policy will specify that Health and Safety should arrange training courses, prompt refresher training and manage training records on behalf of the Council.</p> <p>The Responsible Persons shall be required to identify and provide details of required training, which will be recorded on a definitive central record. Health and Safety will monitor this list as part of the annual audit and confirm with Responsible Officers that the list and associated training records are up to date. Particular emphasis shall be placed upon ensuring that relevant new employees, agency workers and those involved in shared service arrangements are made aware of their responsibilities and considered for training as appropriate.</p> <p><u>Managers Responsible</u> Head of Property Services; Health and Safety Manager</p>	
<p><u>Management Progress Report of the Head of Property Services</u></p> <p>A list of Responsible Persons and their training has been compiled. The submissions provided by departments has provided further information in terms of the training completed, which will assist in producing training records. This work should be substantively completed by May 2020.</p>	
4.3 Tendering and Contracts	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>A corporate review of the way that Legionella testing, risk assessment, cleaning, chlorination and training services are procured is being undertaken with a view to ensuring consistency, value-for-money and compliance with procurement regulations.</p> <p><u>Managers Responsible</u> Head of Property Services; Health and Safety Manager; Interim Senior Housing Manager</p>	
<p><u>Management Progress Report of the Head of Property Services</u></p> <p>This action is not considered to be a high risk/priority at this stage, given the ongoing pressure on resources. The action will be progressed later in the new year in conjunction with the Head of Housing and with support from the Procurement team.</p>	

5. Commercial Property/Industrial Units	
5.1 Invoices – Combined Rent and Insurance	Progressing
<p><u>Agreed Action</u> (Merits Attention)</p> <p>The potential to combine the annual billing process for rental and insurance recharges was considered. A wholesale change for all existing tenants was not considered appropriate at this stage as the action would require changing up to 60 system generated invoices as well as disrupting pre-arranged Direct Debits/Standing Orders for tenants.</p> <p>Instead, combined rent and insurance bills will be established for new tenancies and for existing tenants at the point of periodic rent reviews. The Estates Manager will liaise with the Insurance team to calculate a suitable fixed annual premium within the new lease term.</p> <p><u>Manager Responsible</u> Estates Manager</p> <p style="text-align: right;">Revised Target Date: 30 June 2020</p>	
<p><u>Management Progress Report of the Estates Manager</u></p> <p>Combined rent and insurance bills have been established for new tenants and existing tenants at the point of periodic rent reviews following discussions with the Insurance and Risk Management team to fix a suitable premium. So far, the Council has converted 16 units to a combined rent and insurance debt, with five more underway which will increase the conversion rate to 42%.</p>	

6. Energy	November 2018, Limited Assurance, Actions – 2
6.1 Efficiency Improvements	Progressing
<p><u>Agreed Action</u> (Significant)</p> <p>A risk-based approach will be adopted for the billing and checking process. This will consider the potential improvements outlined in the audit report.</p> <p>The analytical review of monthly billing could be facilitated by the procurement of an Energy Database, which would enable a greater and faster analysis and payment of the incoming invoices. Analysis of usage and charges on each site could be undertaken for both abnormal usage and comparison previous years bills and weather conditions, enabling greater efficiency of identifying potential refunds and credits, and helping to prevent overpayment.</p> <p>This greater efficiency will free up time spent on bill checking and processing by the Energy Officer to progress other proactive tasks such as updating the Carbon Management Plan, looking at further ways to reduce energy consumption and CO₂ emissions.</p> <p><u>Managers Responsible</u> Head of Property Services; Estates Manager; Energy Officer</p> <p style="text-align: right;">Revised Target Date: 31 May 2020</p>	
<p><u>Management Progress Report of the Head of Property Services</u></p> <p>This action is ongoing. The Council has considered a number of potential databases but has yet to fully evaluate a suitable option that meets with its requirements.</p> <p>The Council has ended the contract for water utility management and is working with Procurement to consolidate all water invoices into one combined invoice with the supplier. Once this has been achieved, there should be a clearer picture of the type of database required to be compatible with the utilities' billing processes.</p>	

7. Payroll	July 2019, Reasonable Assurance, Actions – 1
7.1 Independent Check of Paid Employees	Progressing
<p><u>Agreed Action</u> (Significant)</p> <p>A full reconciliation of the movement in headcount should be carried out by a designated officer, independent of the Payroll process (i.e. Accountancy). The Audit and Control team will support the Payroll and Job Evaluation Manager in creating an independent and sustainable checking process that will then be passed to a designated officer to regularly complete the process on a monthly basis.</p> <p><u>Managers Responsible</u> Payroll and Job Evaluation Manager Head of Finance Services</p> <p style="text-align: right;">Revised Target Date: 30 April 2020</p>	
<p><u>Management Progress Report of the Payroll and Job Evaluation Manager</u></p> <p>A revised process is currently being developed, in conjunction with the Audit and Control team, and will be trialled as part of the February 2020 payroll. The trial will be reviewed for effectiveness and the process then refined to ensure that it is efficient and sustainable, prior to handover to a designated officer, independent of the Payroll process.</p>	

Report of the Deputy Chief Executive

REVIEW OF STRATEGIC RISK REGISTER

1. Purpose of report

To recommend approval of amendments to the Strategic Risk Register and the action plans identified to mitigate risks.

2. Detail

Further to earlier reports to this Committee and in accordance with the timescales set out in the Risk Management Strategy approved by this Committee in December 2018, the Strategic Risk Management Group met on 5 February 2020 to review the Strategic Risk Register. The General Management Team (GMT) has since considered the proposals from the Strategic Risk Management Group. The objectives of the review were to:

- Identify the extent to which risks included in the Strategic Risk Register are still relevant
- Identify any new risks to be included in the Strategic Risk Register
- Review action plans to mitigate risks.

A summary of the risk management process is included in appendix 1. The Risk Management Strategy includes a '5x5' risk map matrix to assess both the threats and opportunities for each strategic risk in terms of both the likelihood and impact. The risk map is included to assist the understanding of the inherent and residual risk scores allocated to each strategic risk. These scores will be considered further and amended as necessary in due course.

Details of proposed amendments to the Strategic Risk Register and the actions resulting from the process are attached in appendix 2. The revised Strategic Risk Register incorporating the proposed amendments is available on the intranet. Further reviews of the Strategic Risk Register will be reported to future meetings of this Committee.

Recommendation

The Committee is asked to RESOLVE that the amendments to the Strategic Risk Register and the actions to mitigate risks as set out in appendix 2 be approved.

Background papers

Nil

APPENDIX 1**REVIEW OF STRATEGIC RISK REGISTER****Introduction**

The Risk Management Strategy, as revised in December 2018, aims to improve the effectiveness of risk management across the Council. Effective risk management will help to ensure that the Council maximises its opportunities and minimises the impact of the risks it faces, thereby improving its ability to deliver priorities, improve outcomes for residents and mitigating legal action and financial claims against the Council and subsequent damage to its reputation.

The Strategy provides a comprehensive framework and process designed to support both Members and Officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The Strategy outlines the objectives and benefits of managing risk, describes the responsibilities for risk management, and provides an overview of the process that the Council has in place to manage risk successfully. The risk management process outlined within the Strategy should be used to identify and manage all risks to the Council's ability to deliver its priorities. This covers both strategic priorities, operational activities and the delivery of projects or programmes.

The Council defines risk as "the chance of something happening that may have an impact on objectives". A risk is an event or occurrence that would prevent, obstruct or delay the Council from achieving its objectives or failing to capture business opportunities when pursuing its objectives.

Risk Management

Risk management involves adopting a planned and systematic approach to the identification, evaluation and control of those risks which can threaten the objectives, assets, or financial wellbeing of the Council. It is a means of minimising the costs and disruption to the Council caused by undesired events.

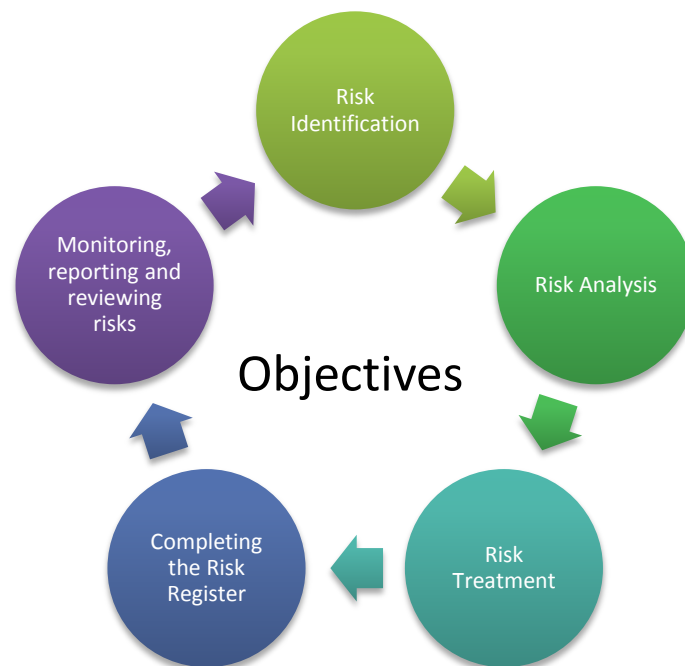
Risk management covers the whole range of risks and not just those associated with finance, health and safety and insurance. It can also include risks as diverse as those associated with public image (reputation), environment, technology and breach of confidentiality amongst others.

The benefits of successful risk management include:

- Improved service delivery with fewer disruptions, efficient processes and improved controls
- Improved financial performance and value for money with increased achievement of objectives, fewer losses, reduced impact and frequency of critical risks
- Improved corporate governance and compliance systems with fewer legal challenges, robust corporate governance and fewer regulatory visits
- Improved insurance management with lower frequency and value of claims, lower impact of uninsured losses and reduced premiums.

Risk Management Process

The Council's risk management process has five key steps as outlined below.



Process Step	Description
Risk Identification	Identification of risks which could significantly impact the Council's aims and objectives – both strategic and operational.
Risk Analysis	Requires consideration to the identified risks potential consequences and likelihood of occurring. Risks should be scored against the Council's risk matrix
Risk Treatment	Treat; Tolerate; Transfer; Terminate – Identify which solution is best to manage the risk (may be one or a combination of a number of treatments)
Completing the Risk Register	Document the previous steps within the appropriate risk register. Tool for facilitating risk management discussions. Standard template to be utilised to ensure consistent reporting.
Monitoring, reporting and reviewing the risks	Review risks against agreed reporting structure to ensure they remain current and on target with what is expected or manageable.

Risk Matrix

		Risk – Threats				
Likelihood	Almost Certain – 5	5	10	15	20	25
	Likely – 4	4	8	12	16	20
	Possible – 3	3	6	9	12	15
	Unlikely – 2	2	4	6	8	10
	Rare – 1	1	2	3	4	5
		Insignificant – 1	Minor – 2	Moderate – 3	Major – 4	Catastrophic – 5
		Impact				

Risk Rating	Value	Action
Red Risk	25	Immediate action to prevent serious threat to provision and/or achievement of key services or duties
	15 to 20	Key risks which may potentially affect the provision of key services or duties
Amber Risk	12	Important risks which may potentially affect the provision of key services or duties
	8 to 10	Monitor as necessary being less important but still could have a serious effect on the provision of key services
	5 to 6	Monitor as necessary to ensure risk is properly managed
Green Risk	1 – 4	No strategic action necessary

APPENDIX 2

Strategic Risk Register – Summary of Proposed Changes

Inherent Risk – Gross risk **before** controls and mitigation

Residual Risk – Risk remaining **after** application of controls and mitigating measures

Risk	Inherent Risk	Residual Risk	Changes
<p>1. Failure to maintain effective corporate performance management and implement change management processes</p> <p><i>The residual risk score has been revised after it was considered that the position with regards to this risk had improved.</i></p>	20	6	<p>An action was updated to present the Corporate Plan 2020-2024 to Policy and Performance Committee on 5 February 2020 and recommend to Council on 4 March 2020 for adoption.</p> <p>An action was updated to prepare for the Local Government Association (LGA) peer review in May 2020.</p> <p>As the level of uncertainty facing the Council has reduced following the conclusion of the May 2019 Borough elections and significant progress has been made with the production of a new Corporate Plan, the residual risk score was reduced from 9 to 6.</p>
<p>2. Failure to obtain adequate resources to achieve service objectives</p> <p><i>Although the residual risk score does not need to change, it was considered that the position with regards to this risk had Improved.</i></p>	25	12	<p>An action was updated to respond to the loss of car parking income from Nottinghamshire County Council.</p> <p>An action was amended to implement the advice provided by specialist external solicitors and counsel to support the tram compensation claim against Nottingham City Council.</p> <p>The completed actions removed from the action plan include:</p> <ul style="list-style-type: none"> • Complete the disposal of the Town Hall in Beeston • Present an updated Business Strategy to the Finance and Resources Committee.

Risk	Inherent Risk	Residual Risk	Changes
<p>3. Failure to deliver the Housing Revenue Account (HRA) Business Plan</p> <p><i>Although the residual risk score does not need to change, it was considered that the position with regards to this risk had Improved.</i></p>	25	12	<p>The Acquisitions Policy and the Rent Setting Policy have been added as key controls.</p> <p>The number of void properties and the level of rent arrears have been added as risk indicators.</p> <p>An action has been updated to assess any potential implications from the Social Housing White Paper.</p> <p>An action has been updated to develop the Housing Delivery Plan Phase 1 sites.</p> <p>The completed actions to undertake a review of the Housing Repairs service and to present the Housing Neighbourhood Strategy to the Housing Committee can be deleted.</p>
4. Failure of strategic leisure initiatives	25	15	An action added to review the exit clauses in joint use agreements.
5. Failure of Liberty Leisure trading company	25	12	Updated reference to scrutiny by the Leisure and Health Committee.
6. Failure to complete the re-development of Beeston town centre	25	15	<p>The alignment of Core Strategies by Greater Nottingham local planning authorities has been deleted as a key control.</p> <p>An expired action point to respond as appropriate to any legal challenge arising from the awarding of contracts has been removed.</p>
7. Not complying with domestic or European legislation	25	12	<p>A completed action to present the Equality and Diversity Annual Report to the Policy and Performance Committee has been deleted.</p> <p>Whilst there is an action to react to the impact of legislative changes arising from the United Kingdom leaving the European Union, the uncertainty surrounding this process and its potential legislative, financial and other implications will require close scrutiny. There may be a significant impact upon a number of strategic risks and these will have to be addressed in due course.</p>

Risk	Inherent Risk	Residual Risk	Changes
8. Failure of financial management and/or budgetary control and to implement agreed budget decisions	25	12	An action point to present an updated Medium Term Financial Strategy to Finance and Resources Committee on 13 February 2020 as part of the Budget Proposals and Associated Strategies report was added.
9. Failure to maximise collection of income due to the Council <i>Although the residual risk score does not need to change, it was considered that the position with regards to this risk had improved.</i>	20	9	<p>The Income Collection Policy has been added as a key control.</p> <p>An action has been added to review the outcomes of the data submitted to the National Fraud Initiative (NFI) premium service in February 2020.</p> <p>An action to undertake a procurement exercise for bill payment services has also been added.</p> <p>The completed and expired tasks removed from the action plan include:</p> <ul style="list-style-type: none"> • monitor the use of different payment methods by customers of the garden waste service. • ensure an appropriate balance between tenancy sustainment and rent collection with regards to the Council's housing tenants.
10. Failure of key ICT systems <i>The residual risk score has been revised after it was considered that the position with regards to this risk had improved.</i>	25	10	<p>The completed action point to resolve outstanding service issues in anticipation of the disposal of the Town Hall has been deleted.</p> <p>Given that the transfer of ICT staff and facilities to the Council Offices was concluded before the Town Hall was sold on 31 January 2020 and that this did not have a significant impact upon service delivery, the residual risk score was reduced from 15 to 10.</p>
11. Failure to implement Private Sector Housing Strategy in accordance with Government and Council expectations	20	8	An action was updated to present a report to the Jobs and Economy Committee on 27 February 2020 on proposals to further regulate houses in multiple occupation (HMOs).

Risk	Inherent Risk	Residual Risk	Changes
12. Failure to engage with partners/community to implement the Broxtowe Borough Partnership Statement of Common Purpose 2018-2020	15	6	No changes.
13. Failure to contribute effectively to dealing with crime and disorder	15	6	An action point was added to present a Knife Crime Action Plan to the Community Safety Committee on 4 June 2020.
14. Failure to provide housing in accordance with the Local Development Framework	20	12	An action to monitor progress on the potential creation of a Development Corporation, including land at Toton and the Chetwynd Barracks site was added.
15. Natural disaster or deliberate act, which affects major part of the Authority <i>The residual risk score has been revised after it was considered that the position with regards to this risk had worsened.</i>	15	12	Following the increase in the number of coronavirus cases across the world and in response to measures being taken at national and international level to address this, new actions to brief the Senior Management Team on the Flu Pandemic Plan (and implement this plan if necessary) and to provide a coronavirus awareness module accessible to all staff within Broxtowe Learning Zone (BLZ) have been added. Given the severity of the coronavirus outbreak and the potential impact this may have upon Council employees and their families as well as upon the local community (particularly the most vulnerable), the residual risk score be increased from 8 to 12.
16. Failure to mitigate the impact of the Government's welfare reform agenda <i>The residual risk score has been revised after it was considered that the position with regards to this risk had improved.</i>	20	6	Given the various measures that the Council has implemented to mitigate the impact of the Government's welfare reform agenda and the recent announcement of a delay in the full rollout of universal credit to 2024, the residual risk score was reduced from 10 to 6.

Risk	Inherent Risk	Residual Risk	Changes
17. Failure to maximise opportunities and to recognise the risks in shared services arrangements	20	9	An action point was updated to report annually on shared car parking management arrangements to the Environment and Climate Change Committee.
18. Corporate and/or political leadership adversely impacting upon service delivery <i>Although the residual risk score does not need to change, it was considered that the position with regards to this risk had improved.</i>	20	8	The Member Induction Programme has been added as a key control. The completed action to deliver the Member Induction Programme has been deleted.
19. High levels of sickness <i>Although the residual risk score does not need to change, it was considered that the position with regards to this risk had worsened.</i>	16	9	An action point to provide wellbeing checks for any employees who may be interested has been added.
20. Lack of skills and/or capacity to meet increasing initiatives and expectations. The residual risk score has been revised after it was considered that the position with regards to this risk had worsened.	20	16	An action to present a report on future skills requirements to Personnel Committee on 30 June 2020 was added. A further action point to present a Learning and Development Strategy to Personnel Committee on 30 June 2020 was also added. Given the difficulties that have been encountered in recruiting suitably qualified and experienced staff in a number of key areas including ICT Services, Finance Services and Planning and the impact that this is having upon service delivery, the residual risk score was increased from 12 to 16. There is a significant degree of overlap with Risk 21 "Inability to attract or retain key individuals or staff". Consideration will be given as to whether these could be consolidated into a single risk.

Risk	Inherent Risk	Residual Risk	Changes
<p>21. Inability to attract/retain key individuals or groups of staff</p> <p><i>The residual risk score has been revised after it was considered that the position with regards to this risk had worsened.</i></p>	20	16	<p>An action has been updated to present the findings of the recent work undertaken by East Midlands Councils on the Broxtowe Borough Council pay and reward model to Personnel Committee on 30 June 2020.</p> <p>Given the difficulties that have been encountered due to the inability to attract or retain key individuals or groups of staff, the residual risk score was increased from 12 to 16.</p> <p>There is a significant degree of overlap with Risk 20 above. Consideration will be given as to whether these could be consolidated into a single risk.</p>
<p>22. Failure to comply with duty as a service provider and employer to groups such as children, the elderly, vulnerable adults etc.</p> <p><i>Although the residual risk score does not need to change, it was considered that the position with regards to this risk had improved.</i></p>	20	9	<p>The Disclosure and Barring Service Policy was added as a key control.</p> <p>The following completed/expired actions have been deleted:</p> <ul style="list-style-type: none"> • Produce a Disclosure and Barring Service (DBS) Policy • Maintain face-to-face/phone access for service users who may be digitally excluded • Review the Legionella Policy • Present a review of the armed forces covenant to the Community Safety Committee.
<p>23. Unauthorised access of data</p> <p><i>Although the residual risk score does not need to change, it was considered that the position with regards to this risk had improved.</i></p>	20	9	<p>The action point to introduce the latest preventative software for the Council's ICT systems to deny unauthorised access (as launched at Rushcliffe) has been deleted.</p>
<p>24. High volumes of employee or client fraud</p>	20	9	<p>The actions to conduct a fraud risk assessment exercise, in conjunction with GMT, and to develop a fraud risk register has been amended to include a revised date of 31 March 2020.</p>

Further Details

The following items are highlighted for the attention of Members.

1. Climate Change

On 17 July 2019 the Council resolved that a 'climate emergency' be declared and that a new Carbon Management Plan be produced which will include the setting of a net carbon neutral target by 2027.

It was agreed that climate change should be considered further by the Strategic Risk Management Group with a view to establishing a specific risk within the strategic risk register, with a dedicated risk owner, inherent and residual risk scores, key controls, risk indicators and action points. The outcome of this consideration will be reported to the next meeting of this Committee.

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Report of the Strategic Director

WORK PROGRAMME

1. Purpose of report

To consider items for inclusion in the Work Programme for future meetings.

2. Background

Items which have already been suggested for inclusion in the Work Programme of future meetings are given below. Members are asked to consider any additional items that they may wish to see in the Programme.

18 May 2020	<ul style="list-style-type: none"> Corporate Governance Arrangements Internal Audit Progress Report Canvass Reform Review of Governance of Parish and Town Councils Review of the Council's Arrangements for Dealing with Standards Complaints Governance Projects Dashboard Report of the Monitoring Officer
20 July 2020	<ul style="list-style-type: none"> Audit of Accounts 2019/20 and Associated Matters Internal Audit Review 2019/20 Internal Audit Progress Report Annual Counter Fraud Report 2019/20 Review of Strategic Risk Register Annual Review of Complaints 2019/20 Freedom of Information Report 2019/20 Community Governance Review

Recommendation

The Committee is asked to CONSIDER the Work Programme and RESOLVE accordingly.

Background papers

Nil

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