

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES

of meeting held on **15 FEBRUARY 2013** at

Loxley House from 10.34 am to 12.54 pm

- ✓ Councillor K Williams (Chair)
- ✓ Councillor Piper (Vice-Chair) (for minute 39 to 45 inclusive)
- ✓ Councillor Aslam
- Councillor Fox
- ✓ Councillor Hartshorne
- ✓ Councillor Heaton
- ✓ Councillor Molife
- ✓ Councillor Parton
- ✓ Councillor Steel

- ✓ indicates present at meeting

Colleagues in attendance

| | | | | |
|--------------------------|---|--------------------------------------------------------|---|-----------------------|
| Paulette Omenka-Thompson | - | Head of Children in Care |) | Children and Families |
| Paul Wilkinson | - | Business Manager – Children in Care |) | |
| Simon Burton | - | Corporate Risk Specialist |) | Resources |
| Pete Guest | - | Treasury Management Officer |) | |
| Angelika Kaufhold | - | Constitutional Services Officer |) | |
| Rob McCutcheon | - | Team Leader Corporate Safety |) | |
| Carole Mills | - | Deputy Chief Executive/Corporate Director of Resources |) | |
| Paul Millward | - | Head of Resilience |) | |
| Shail Shah | - | Head of Internal Audit |) | |
| Paul Hutchings |) | | | |
| Sue Sunderland |) | KPMG | | |
| Andrew Hall | - | Director of Health and Wellbeing Transition (Acting) | - | Public Health - PCT |

39 APOLOGY FOR ABSENCE

An apology for absence was received from Councillor Fox.

40 DECLARATIONS OF INTERESTS

No declarations of interests were made.

41 MINUTES

RESOLVED that the minutes of the last meeting held on 21 September 2012, be confirmed and signed by the Chair.

42 FOSTER CARE/ADOPTION : INTERNAL AUDIT REPORT FOR EXAMINATION

Consideration was given to a report of the Deputy Chief Executive/Corporate Director of Resources, which provided detailed information relating to the work undertaken by Internal Audit on reviewing the Fostering and Adoption Service. The purpose was for the Audit Committee to determine whether the investigation was sufficiently robust and the service provided a prompt response to the findings.

Ms Omenka-Thompson advised the committee of the findings of the scrutiny of foster care/adoption services, specifically relating to high cost placements, disabilities and the 18 Plus Service. Common issues had been identified on the use of spreadsheets and the access databases to either record payments being made or as a means of managing financial data. This resulted from existing financial systems not being capable of managing data on an individual client basis so work-arounds had to be developed. Some of this data was also interdependent for example, the Foster Care/Adoption system was used to make payments for Home from Home (Children with Disabilities) and allowances for the 18 Plus Service, another example being when a child moved from a High Cost Placement to a Foster Care Placement.

It was confirmed that many features were missing from the system for example, the ability to run off reports to manage the workflow and budget more effectively and to make correct payments to carers. The Foster Care/Adoption System was not co-ordinated with any other children's social care information systems.

Authorisations to make foster care and adoption payments on the City Council's financial system was given by the Senior Creditor Officer which was inappropriate as in some weeks these payments exceeded financial limits and should have been made by Portfolio Holder.

As no record of the committed expenditure was made on the City Council's financial management system, business managers could only base estimates for the budget outturn on the year remaining and average spend.

Action taken to remedy these issues included:

- staff had received further training;
- the car loan scheme had been reviewed and suspended with new applications being referred to friendly societies at low interest;
- the repayments on the car loan scheme had been reviewed and reconciled with invoices being issued to those with outstanding loans.

A new IT system was being tendered for which would incorporate the Children and 18 Plus Service and would interface with the Council's oracle system. This had been considered by the IT Strategy Board, a range of different packages had been benchmarked and the service would shortly be going out to tender.

RESOLVED that the following be noted:

- (1) the tender proposals for a new IT package which would interface with the Council's Oracle general accounting system which would address the issues raised during the review;
- (2) the information provided in the report.

43 EXTERNAL AUDITOR REPORTS

(a) External Audit Plan 2012-13

Ms Sunderland presented the External Audit Plan 2012/13 produced this year by KPMG. She confirmed that the core audit remained the same as in previous years, when this was undertaken by the Audit Commission, with the same code of practice and value for money conclusions. This was an interim audit and the headline risks were identified as:

- PFI Accounting (NET 2) and it was confirmed that KPMG were in discussion with the Council to support NET 2 as they had done with NET 1;
- ongoing issues relating to specific payroll and accounts payable risks which would be addressed by the implementation of the new Oracle account management system;
- the cost reduction programme needed to deliver £16.7 million in savings during 2013/14.

It was reported that the scale of challenge facing the Council was common across the whole public sector and although these risks had been identified in previous audits, the Council had been making improvements year on year.

Ms Mills reassured the Committee that issues such as, value for money for NET 2, were being managed on behalf of the Council through Client Management arrangements contractually agreed for the whole programme.

Mr Shah confirmed that the new payroll system was key and would address previous concerns and include all new staff and leavers etc. Testing was currently taking place and once launched would provide 'live' information for managers on budgets, salary costs and employee information.

(b) Certification of grants and returns 2011-12

Mr Hutchins confirmed the headlines as follows:

For 2011/12, six returns were certified for the Council with a value of £325 million;

- Unqualified certificates were issued for three returns and qualifications were necessary for the following three cases:
 - housing and council tax benefit scheme – a high level of Council Tax benefit overpayment classification errors had been identified for 33% of cases reviewed with the potential funding claw back estimated at £101,500 which was lower than in 2010/11 £220,000. The funding claw back for all types of error was estimated at £799,000 which represented just under 0.5% of the total value.;

- national non-domestic rates return – two instances were found where there was insufficient evidence to support the award of mandatory charitable relief at £31,384;
- Teacher's pension return – insufficient evidence was available to support and reconcile the teacher contributory salary values and certain contributions were paid to underlying records which equated to £982,702.
- Adjustments were necessary for two of the Council's returns as a result of the certification work this year, namely:
 - teacher's pensions return the value of total contributions paid increased by £982,702;
 - housing revenue account subsidy – the return was adjusted by £38,364.

The Council had adequate arrangements for preparing most returns and to support certification work but some improvements were required as follows:

- Overall grants co-ordination arrangements would benefit from:
 - improved timeliness of grants submission (three out of the six returns were submitted late this year);
 - overall reviews of returns and supporting working papers for completeness prior to submission to audit.
- Arrangements for compiling the teachers' pensions agency return this year were weak and needed to be improved.

The overall fee for the certification of returns (£46,494) had been contained within the original estimate of £64,200 which was below the overall estimate and, as a result of changing audit requirements, only six returns this year compared to 8 in 2010/11.

During discussion the following additional information was provided:

- The actuarial valuation of the Teachers' Pension Scheme would not directly affect the Council although it had an interest in the health of the scheme. Any decisions to tackle the deficit would be taken by the Teachers Pensions Agency.
- Ms Mills stated that any overpayments in housing benefits would have to be returned to the Government and due to the complexity of this scheme all authorities shared similar difficulties. Although it was preferable to have a shortfall of much less than £750,000 it would not affect the bottom line of the Council and was covered on the balance sheet. In terms of the overall budget of £137 million this equated to a 0.5% error.
- Ms Sunderland confirmed that it was more common to issue a qualification letter for housing benefits to Councils than not, given its administrative complexity.

RESOLVED that the External Audit Plan 2012/13 and Certification of grants and returns 2011/12 be noted.

44 RISK MANAGEMENT QUARTERLY REPORT

Consideration was given to a report of the Deputy Chief Executive/Corporate Director of Resources, which highlighted the progress and direction of travel of risks included on the Council's Strategic Risk Register. Councillors considered the progress of made by the Council on the most serious risks and the reviews which had taken place by the Corporate Leadership Team.

SR24 – failure to ensure effective systems were in place to manage health and safety risks - Mr Millward provided the background to incidents which had occurred where the Council had faced criticism from the Health and Safety Executive (HSE) and what actions the Council had taken as a result.

The Corporate Health and Safety team had been impacted by a 50% reduction in resources as a result of Strategic Choices and had moved into the Resources Directorate. In 2010, SR24 was introduced into the Strategic Risk Register (SRR) and a new direction was taken to enforce health and safety through individual managers who had legal responsibility to ensure day to day compliance of Health and Safety (H&S) documentation and maintenance of training records. The new service introduced a four part plan which comprised:

- (1) Making managers responsible;
- (2) Introduction of self-service IT systems to enable managers to log accident/violent incidents reports etc;
- (3) Audit compliance;
- (4) Issuing improvement plans to service areas if they had lapsed in their H&S requirements.

Mr Millward confirmed that the long-term trajectory for SR24 was good. In response to questions he added that the H&S training provided by the team was validated by an external agency and that the role of the team had been completely refocused to support managers to manage risk.

SR29 – Failure to establish an effective Public Health Function (promote/protect health, tackle health inequality, promote social justice and safer communities) with adverse impact on the citizen wellbeing and a failure to deliver the authority's statutory responsibilities under the 2012 Health and Social Care Act. Mr Hall informed the Committee of the progress of the transfer of Public Health into the Council and confirmed that the budget transfer had been confirmed and the funding transfer amount was better than originally predicted. Staff would be transferred to the Council under the Transfer of Undertakings (Protection of Employment) as required by regulations.

There still remained some significant risks due to the delayed clarification from Government on the transfer scheme for staff which impacted on the start of formal consultation, organisational development, support and training. However, there was now a commitment to move ahead with the consultation process in advance of receiving this clarification from Government.

To enable the Council to access NHS Data it had to be N3 accredited to be compliant with NHS information governance requirements which presented a significant challenge for the organisation.

As the new system of Health Protection was being established, with staff being matched to posts as part of the Public Health Service or the Commissioning Board. Despite this risk being reduced there were still risks in maintaining Public Health Protection work-streams over a range of different organisations with potential for confusion, misalignment of objectives/resources and changes in staffing.

In conclusion, whilst the threat level remained at red 12, the direction of travel was improving.

During discussion Mr Hall provided the following information in response to questions:

- There were a number of different agencies/bodies commissioned for a variety of Public Health issues which would remain the same as previously. A Nottinghamshire wide Health Protection Group linked in with Area Resilience Group which was attended by the Director of Public Health, who had been jointly appointed by Nottingham City Council and Nottinghamshire County Council. These groups also reported into the Health and Wellbeing Board.
- In relation to meeting the N3 compliance standard for NHS Information Governance, the Council had the IT processes in place and agreement in place to secure access to the NHS database by 2013/14.

Mr Burton reported back on new, emerging and existing SRR risks as detailed below:

SR1 – failure to implement harmonised pay, grade and terms and conditions, that were fair to all colleagues and Equal Pay legislation compliant – it was reported that significant progress had been made since 2012 and given the reduced risk, the Corporate Leadership Team had agreed to delegate this to the Resources Departmental Risk Register for ongoing management.

SR3 - failure to mitigate the impact of the economic climate on Nottingham City and its citizens – as a result of securing significant level of funding of approximately £60 million through the City Deal and the Regional Growth fund, to provide business support in conjunction with partners, the overall threat level had been assessed as having improved from 12 to 9.

SR12a – Failure to provide the best educational outcome for children and opportunities for young people to access further education and skills training to contribute to the economic wellbeing of the City.

SR24 – failure to ensure effective systems were in place to manage health and safety risks – further to the information provided by Mr Millward in relation to Health and Safety and the recent death of a vulnerable adult during part of a supervised day care centre visit to King's Mill reservoir in September 2012. The Quarter 2/Quarter 3 risk assessment had deteriorated from 6 to 9. One outcome was a proposal from the Strategic Critical Management Group, chaired by the Corporate Director for Communities, for a review of Health and Safety practices in Adult Care.

SR26 – failure to support Nottingham citizens and communities in minimising the negative impact of welfare changes, more specifically the work/performance of City Council Welfare Rights Service and other advice agencies.

RESOLVED that:

- (1) the delegation of SR1– failure to implement harmonised pay, grade and terms and conditions, that are fair to all colleagues and Equal Pay legislation compliant, to the Resources Departmental Risk Register, be noted;**
- (2) the progress made on reducing the seriousness of the Council’s strategic risks as reflected by their threat levels and Direction of Travel for Quarter 3 2012/13, be noted;**
- (3) that the results of the review of the SRR by CLT, be noted;**
- (4) that SR12 Failure to provide the best educational outcome for children and opportunities for young people and SR26 – failure to support Nottingham citizens and communities in minimising the negative impact of welfare changes, be selected for specific scrutiny as part of the SRR Quarter Four 2012/13 update.**

45 TREASURY MANAGEMENT

(a) 2012-13 Half yearly update

Mr Guest reported that the treasury management actions taken in 2011/12 included:

- No new long-term borrowing or debt rescheduling had been undertaken to 30 September 2012;
- The average return on investments to 30 September was 0.807%;
- Between 1 April and 30 September, the performance of daily cash flow was above target at 98.5%.

Responding to questions, Mr Guest agreed that the level of return on investments was low, but that this reflected the Council’s adopted risk strategy and a general fall in short-term interest rates as a consequence of Government fiscal policy.

(b) 2013-14 Strategy

Mr Guest informed the Committee that there were a few changes in the strategy which included the addition of new banks on the investment list and the extension of the maximum period of investment to 2 years.

Responding to questions Mr Guest confirmed that the Council could invest in property but it could not use treasury management funds to do this as this money could not be tied up permanently. Investments in property were undertaken as part of the capital programme.

The bulk of the debt portfolio was long-term borrowing to finance the capital programme. A maturity profile was maintained to ensure that monitoring took place on when debts had to be repaid.

RESOLVED that the reports be noted.

46 ROLE OF AUDIT COMMITTEE

The report provided details of the terms of reference, role and responsibilities and membership for the Audit Committee as well as, information relating to the work programme for the remainder of this year.

RESOLVED that the report of the Deputy Chief Executive/Corporate Director of Resources, be noted and the terms of reference for the Committee, be endorsed.

47 COMBINED INTERNAL AUDIT WORK PLAN FOR EAST MIDLANDS SHARED SERVICES (EMSS)

The report provided a summary of the work carried out by Nottingham City Internal Audit for EMSS and Leicestershire County Council Internal Audit on the progress of the implementation of state of the art technology for combined human resources, Payroll and finance transactional shared services.

RESOLVED that the report of the Deputy Chief Executive/Corporate Director of Resources and that the go live date for EMSS was April 2013, be noted.

48 ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2011/12 AND PROCESS FOR PRODUCING 2012/13 STATEMENT

Information included in the report related to the current position of the issues previously reported in the 2011/12 Annual Governance Statement (AGS) and the process for compiling the 2012/13 AGS. The publication of the AGS was required by the Accounts and Audit Regulations 2011, to ensure the Council conducted an annual review into effectiveness of its internal control and to prepare a statement in accordance with the guidelines.

RESOLVED that the report of the Deputy Chief Executive/Corporate Director of Resources, be noted.

49 INTERNAL AUDIT PERFORMANCE 1 OCTOBER TO 31 DECEMBER 2012

This quarterly performance report included details of the work carried out by Internal Audit and performance for the third quarter with a list of audit reports issued, a summary of related audit reports completed in this quarter and an overview of all the work completed against the updated Audit Plan. Councillors were also requested to identify which area highlighted as being a risk they would like to have audited and be submitted for examination by the Committee at its meeting in June 2013.

RESOLVED that the report of the Director of Strategic Finance, be noted and that the Property Services be selected for scrutiny at its next meeting in June 2013.

50 DATE OF NEXT MEETING

RESOLVED that the next meeting be held on Friday 26 April 2013 at 10.30 am.