

## NOTTINGHAM CITY COUNCIL

### AUDIT COMMITTEE

**MINUTES of the meeting held at Loxley House on 27 SEPTEMBER 2013 from 10.30 am to 11.57 am**

- ✓ Councillor Sarah Piper (Chair)
- ✓ Councillor Thulani Molife (Vice-Chair) (minutes 14 to 17)
- ✓ Councillor Mohammad Aslam
- Councillor Georgina Culley
- ✓ Councillor Michael Edwards
- ✓ Councillor John Hartshorne
- ✓ Councillor Toby Neal
- Councillor Roger Steel
- Councillor Malcolm Wood

✓ indicates present at meeting

#### **Others in attendance**

Paul Hutchings	-	Manager	)	KPMG
Sue Sunderland	-	Director	)	
Barry Dryden	-	Senior Finance Manager	)	
Tony Kirkham	-	Director of Strategic Finance	)	Resources
Shail Shah	-	Head of Internal Audit	)	
Laura Wilson	-	Constitutional Services Officer	)	

#### **10 APOLOGIES FOR ABSENCE**

Councillor Georgina Culley	-	ill
Councillor Roger Steel	-	personal
Councillor Malcolm Wood	-	other Council business

#### **11 DECLARATIONS OF INTERESTS**

None.

#### **12 MINUTES**

The Committee confirmed the minutes of the meeting held on 26 July 2013 as a correct record and they were signed by the Chair.

#### **13 ANNUAL GOVERNANCE STATEMENT 2012/13**

##### **(i) Report of Deputy Chief Executive/Corporate Director for Resources**

Tony Kirkham, Director of Strategic Finance, introduced the Deputy Chief Executive/Corporate Director for Resources' report which presented the final Annual Governance Statement for 2012/13, which had been amended to include the comments made by the Committee at its meeting on 26 July 2013, for approval.

Tony Kirkham provided the following information in addition to the report in response to questions and comments from the Committee:

- (a) no dividends are being received on the money in the Icelandic banks as the money was deposited there rather than invested, so interest was accrued to the date of administration;
- (b) a further payment has been received from the administrators of Heritable Icelandic bank which improves the final recovery position by just short of £1 million.

**RESOLVED to approve the Annual Governance Statement 2012/13.**

**(ii) Report of CIPFA – Delivering Good Governance**

Tony Kirkham, Director of Strategic Finance, introduced the report of CIPFA which detailed the principles by which good governance should be measured, which was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting on 20 May 2008.

**RESOLVED to note the CIPFA Delivering Good Governance in Local Government Framework.**

**14 STATEMENT OF ACCOUNTS 2012/13**

**(i) Report of Deputy Chief Executive/Corporate Director for Resources**

Barry Dryden, Senior Finance Manager, introduced the Deputy Chief Executive/Corporate Director for Resources' report, which presented the final 2012/13 Statement of Accounts for Nottingham City Council for approval and highlighted the following points:

- (a) the Statement was confirmed as true and fair by the Chief Finance Officer on 29 June 2013;
- (b) the audit of the Statement commenced in early July and was substantially complete by 9 August 2013. KPMG have discussed their findings with the Council and necessary amendments have been made;
- (c) the final Statement and Summary Accounts have been published on Nottingham Insight;
- (d) there are no new issues to be incorporated into the accounts, but there have been some minor amendments to the document to make it more understandable;
- (e) the risks identified by KPMG include the Local Enterprise Partnership, East Midlands Shared Services, Theatre Royal valuation and NET Line 2;
- (f) no material changes have been made to the accounts, but there have been 4 minor changes to the statements which have no impact on the general fund, and changes to the Group Statements have been received;
- (g) in relation to the Annual Governance Report, the value for money conclusion identified that proper arrangements are in place. It identified 3 recommendations but

actions are in place to address them. There were 2 presentational issues with the accounts, a prior year correction on the Group Accounts and 1 presentational issue within the notes;

- (h) there are lessons to be learnt as this is the first year of the new audit regime. De-briefs are planned with interested parties, including KPMG, and plans are in place for the first year of reporting under the Oracle system;
- (i) there are differences between funding and International Financial Reporting Standards (IFRS):

	£m
Executive Board Outturn 2012/13	2.1
Transfers to reserves	13.4
<b>Funding Basis (surplus)</b>	<b><u>15.5</u></b>
Capital Financing	24.6 )
Housing Revenue Account	0.4 ) Technical adjustments
Timing/Valuation (unusable Reserves)	<u>-12.1 )</u>
<b>IFRS Basis (surplus)</b>	<b><u>28.4</u></b>

- (j) unusable reserves reflect technical adjustments to the accounts and cannot be used to support Council Tax or the general fund, but can be used for:
  - revaluation of assets;
  - the timing differences between the funding basis and the IFRS accounting basis;
  - financing and depreciation of capital expenditure;
- (k) usable ring-fenced reserves:
  - can only be spent on a pre-determined area;
  - include capital, Housing Revenue Account and some earmarked reserves e.g. schools and some unspent grants;
- (l) usable general fund unallocated reserves:
  - can be used to deal with day to day variations and emerging trends;
  - can be used for emergencies and unforeseen events;
  - are determined by a detailed risk assessment;
  - has a minimum level to balance prudent provision with releasing funds for services;
- (m) usable earmarked reserves:
  - are at the discretion of the Council;
  - are for specific items of anticipated future expenditure (sometimes capital);
  - smoothes out expenditure that occurs in peaks over years e.g. equal pay;
  - can be used for timing differences in funding and spend;
- (n) earmarked reserves are currently:

	£m
Schools	19.4
Private Finance Initiatives/LIFT schemes	14.2
Equal pay	12.6
Transforming the organisation	20.3
Invest to save	4.8
Replace IT infrastructure	8.2
Capital	5.1
VAT potential clawback	4.8
Claims on insurance fund	2.6
Other	26.7
<b>Total</b>	<b><u>118.7</u></b>

Barry Dryden and Tony Kirkham, Director of Strategic Finance, provided the following information in response to questions and comments from the Committee:

- (o) the income from fines related to driving offences is included in the highways and transport services budget and there are restrictions on how it can be used;
- (p) the general fund balance is just below £14 million and there is a formula for working out the recommended amount that needs to be in it;
- (q) earmarked reserves are reviewed regularly;
- (r) reserves are available to replace the IT infrastructure and there is an IT Strategy which takes into account the useful life of assets and a rolling programme of replacement based on this;
- (s) the reserve for equal pay covers incentive payments (which end this year) and also some wider issues, such as redundancies and mid-year negotiations on pay increases, etc. The reserve isn't intended to cover any day to day staffing issues, such as the living wage;
- (t) there are rules on how the Council values property assets and the current climate means that there is a reduced assumption of income from property assets and any capital receipts generated from sales;
- (u) the Council acts as Trustees for a number of Trust Funds and the Trusts and Charities Committee approve proposals and developments relating to them. The key Trusts are Highfields Park, Harvey Hadden and the Bridge Estate. Highfields Park and Harvey Hadden run at a loss and are subsidised by the Council.

**RESOLVED to approve the Statement of Accounts 2012/13.**

**(ii) Report to those charged with governance 2012/13**

Sue Sunderland, Director of KPMG, introduced the report of the external auditors which set out the key issues identified during KPMG's audit of Nottingham City Council's financial statements for the year ended 31 March 2013, and detailing their assessment of the authority's arrangements to secure value for money in its use of resources.

Sue Sunderland provided the following information in response to questions and comments from the Committee:

- (a) the audit went well. Small adjustments were made but none were material and they have all been addressed and no issues have a significant impact;
- (b) arrangements are in place to deliver the savings needed to address the reduction in the funding for the authority, but there are still many difficult decisions to be made to ensure this happens.

**RESOLVED to**

- (1) note the report to those charged with governance from KPMG;**
- (2) approve the management representation letter, included as Appendix 5 of the report, for signature by the Chair of the Audit Committee.**

#### **15 AUDIT COMMITTEE ANNUAL REPORT 2012/13**

Councillor Sarah Piper, Chair of the Committee, introduced her report which detailed the work of the Audit Committee in 2012/13 and how this relates to its core responsibilities.

**RESOLVED to note the work undertaken and approve the report for consideration at the Full Council meeting on 21 October 2013.**

#### **16 INTERNAL AUDIT ANNUAL REPORT 2012/13 AND INTERNAL AUDIT CHARTER**

Shail Shah, Head of Internal Audit, introduced his report which outlined the work of the Internal Audit service at the end of the fourth quarter 2012/13 and introduces the Internal Audit Charter.

**RESOLVED to**

- (1) note the audit work completed during the year;**
- (2) note the Head of Internal Audit's Annual Opinion;**
- (3) select the review of the Right to Buy service for examination at the November meeting of the Committee;**
- (4) endorse the Internal Audit Charter, detailed in Appendix 5 of the report.**

#### **17 DATE OF NEXT MEETING**

**RESOLVED to note that the next meeting of the Committee is scheduled to be held on 19 November 2013 at 10.30 am in Loxley House.**