

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LB31 - Loxley House, Station Street, Nottingham, NG2 3NG on 25 July 2014 from 10.30am - 11.48am

Membership

Present

- Councillor Sarah Piper (Chair)
- Councillor Thulani Molife (Vice Chair)
- Councillor Mohammad Aslam
- Councillor John Hartshorne
- Councillor Thulani Molife (Vice Chair)
- Councillor Sarah Piper (Chair)
- Councillor Malcolm Wood

Absent

- Councillor Georgina Culley
- Councillor Michael Edwards
- Councillor Toby Neal
- Councillor Roger Steel

Colleagues, partners and others in attendance:

- | | | |
|-----------------|-----------------------------|-------------|
| Paul Hutchings | - Audit Manager | - KPMG |
| Shail Shah | - Head of Internal Audit |) |
| John Slater | - Principal Auditor |) Resources |
| Simon Burton | - Corporate Risk Specialist |) |
| Barry Dryden | - Senior Finance Manager |) |
| Catherine Pryor | - Constitutional Services |) |

6 APOLOGIES FOR ABSENCE

- Councillor Michael Edwards,
- Councillor Georgina Culley
- Councillor Roger Steel
- Glen O’Connell

The Chair informed the committee that Simon Burton and Paul Hutchings were leaving the City Council and KPMG respectively and wished them well in their new ventures.

7 DECLARATIONS OF INTERESTS

None.

8 MINUTES

The minutes of the meeting held on 27 June 2014 were confirmed and signed by the Chair.

9 INTERIM ANNUAL GOVERNANCE STATEMENT 2013/14

Shail Shah, Head of Internal Audit, presented the report which identified no new significant items of concern.

Councillors questions were responded to as follows:

- (a) financial investment with Icelandic banks is a significant item but the funds are being returned. It would be impossible to gauge the losses or gains of the authority if the money had been placed or used elsewhere, but it is unlikely that the funds would achieve the current rate of 6% interest;
- (b) Councillors and officers are more risk averse regarding the City's funds with money is being invested in regeneration of the City, some borrowing to finance the tram, and paying off debt instead of holding large cash reserves;
- (c) it should be noted that the money borrowed to finance the tram, was done so while the market was at its lowest, therefore providing good terms;
- (d) it is vital that all elected members, recently appointed and long-standing, receive code of conduct training. It would be helpful for those already familiar with the code, to be informed of any specific changes made to the City Council's code of conduct.

RESOLVED

- (1) to note the Interim Annual Governance Statement 2013/14 as set out at appendix 1 to the report;**
- (2) for the Head of Internal Audit to forward the Committee's comments to the Monitoring Officer regarding any updates made to the Code of Conduct.**

10 STRATEGIC RISK REGISTER QUARTER 12014/15 UPDATE AND 2013/14 ANNUAL REVIEW

Simon Burton, Corporate Risk Specialist, presented the report to the Committee of the red and amber rated risks identified in Quarter 1 of 2014/15.

The strategic risk threat level and direction of travel (DoT) are as follows:

SR No.	Strategic Risk Description	Threat	DoT (Q4-1)
Red rated strategic risks (6)			
6	Failure to safeguard vulnerable children	15	↔
11a	Failure to accurately predict and respond to financial pressures to ensure delivery of the Council Plan priorities	12	↑
28	Failure to ensure a financially sustainable adult social care system that protect vulnerable adults and manage the impact of the Care Act	9 to 12	↑
12a	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 (under review)	12	↔
26	Failure to support Nottingham citizens and	12	↔

	communities in minimising the negative impact of welfare changes		
31	Failure to secure affordable and fit for purpose ICT arrangements aligned to current and future business productivity and effectiveness	12	N/A
Amber rated strategic risks (9)			
3	Failure to mitigate the impact of the economic climate on the Nottingham City and its citizens	9 At target	↔
30	Failure to create an organisational environment that supports delivery of Council priorities (new risk added Q1 2013/14)	9	↔
8b	Failure to implement and embed effective information management structures, policies, procedures, processes and controls to support the council's immediate and future regulatory, legal, and business requirements	12 to 9 At target	↓
7a/b	Failure to reduce levels of crime and anti-social behaviour (ASB)	8 At target	↔
25a	Failure to embed a corporate approach to commissioning, informed by citizen need, which drives delivery of improved services at significantly lower cost	9 to 8 At target	↓
2a	Of the reputation of the City	6 At target	↔
5a	Failure to safeguard vulnerable adults	6 At target	↔
10	Failure to maintain good standards of governance	6 At target	↔
24	Failure to ensure effective systems are in place to manage health and safety risks	6 At target	↔
Green rated strategic risks - There are no green rated risks at Q1.			

DoT key: ↓ Reducing Threat Level
 ↔ Stable Threat Level
 ↑ Increasing Threat Level

It is noted that Glen O’Connell, Director of Legal and Democratic Services, is unable to attend today’s meeting to discuss strategic risk number 10, ‘Failure to maintain good standards of governance’. The Committee are keen for this strategic risk to be considered in more depth at the November meeting.

The Committee’s question and comments were responded to as follows:

- (a) with regard to Council attitudes towards outsourcing and progress in identifying new partnerships to reduce overheads, the commercialisation work stream encourages consideration of bidding for new work from various authorities and partners. However willing and compatible partners have to be found. Such arrangements between some authorities in London work well and save a lot of money as their demographics and operational requirements and the methods are very similar. East

Midlands Shared Services was established to save money by sharing Financial and Human Resources functions with the expectation that other authorities would join the arrangement. There have been some challenges, specifically around IT systems but these are being addressed and the East Midlands Shared Services Project Board regularly receive updates on the operation and progress of shared services.

RESOLVED

- (1) for strategic risk number 10, 'Failure to maintain good standards of governance', to be considered at the November meeting of the Committee;**
- (2) to note the progress made in reducing the seriousness of the Council's strategic risks as reflected by their threat levels and direction of travel for Quarter 1/14/15 (table 1 and appendix 5) and for the year 2013/14;**
- (3) to note the results of the review of the Strategic Risk Register (SRR) by the Corporate Leadership Team (CLT);**
- (4) to consider strategic risk 31, failure to secure affordable and fit for purpose ICT arrangements aligned to current and future business productivity and effectiveness', or specific scrutiny as part of the Quarter 1 2014/15 Update, at the November meeting of the committee;**
- (5) for the Head of Internal Audit to provide members of the Committee with access to the minutes of East Midlands Shared Services Project Board, specifically in relation to the concern of the Committee regarding the operation and potential risk posed by the Oracle IT system.**

11 DRAFT STATEMENT OF ACCOUNTS 2013-14

Barry Dryden, Senior Finance Manager, presented the report which detailed the draft Statement of Accounts for 2013/14, and informed the Committee of the public inspection and challenge process.

Paul Hutchings, KPMG Audit Manager, highlighted that as the External Auditors, KPMG also wished to gain more assurance regarding the Oracle system which was currently considered as a general risk.

The Committee's comments and questions were responded to as follows;

- (a) When schools become academies, it is believed that the funds held by them transferred to the Academy;
- (b) general reserves are monitored against the parameters of the medium term financial plan;
- (c) the Local Authority is responsible for collecting non-domestic rates, it also is responsible for the loss of rates following appeals and now retains a proportion of non-domestic rates and pays the rest in to Central Government for redistribution. Therefore the figure for non-payment provisions now includes a provision of £4.419 million for the potential impact on the retained proportion of future non-domestic rate appeals which may be backdated by up to 5 years.

RESOLVED

- (1) to note;**
 - (i) that the Statement of Accounts was submitted to the Audit Commission for audit review on 30 June 2014;**
 - (ii) that the contents of the Statement of Accounts were placed on deposit for public inspection of 20 working days from 7 July 2014;**
 - (iii) that there have been no significant changes to the accounting policies presented the Audit Committee on 25 April 2014;**
- (2) to confirm that it is appropriate for the Statement of Accounts to be produced on a 'going concern' basis;**
- (3) to note that the Audit Committee will be required to review the final audited statement when it is presented at the meeting on 19 September 2014;**
- (4) for the Senior Finance Manager to arrange a training/briefing session on the Statement of Accounts for Audit Committee Councillors.**

12 INTERNAL AUDIT CHARTER 2014

Shail Shah, Head of Internal Audit, presented the report which, in accordance with Public Sector Internal Audit Standards, included minor amendments to the Charter endorsed on 27 September 2013, by explaining reporting lines to senior management.

RESOLVED to endorse the internal audit Charter as provided at Appendix 1 to the report.

13 INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION

Shail Shah, Head of Internal Audit, introduced the report presenting the internal audit reports selected for detailed examination at the meeting of the Committee on 29 November 2013.

Bulwell St Mary's Church of England School

Most of the arrangements in place within the school are considered satisfactory, providing adequate system of control but providing only limited assurance.

The following 3 high priority areas were recommended for improvement;

- the standard of committee meeting minutes;
- demonstrating best value in the procurement of goods and services;
- authorisation for payment of invoices.

5 medium priority, and 3 low priority recommendations were also made.

It is noted that all recommendations have now been met.

Housing Rents 2013-14

Rent increases approved in 2014-15 make a useful step towards providing an income base that supports future expenditure. However concerns included:

- the current level of rent convergence;
- future rent setting;
- the accuracy of the Housing Revenue Account 30 year business plan;
- access control to the Northgate housing system.

4 high priority and 4 medium recommendations were made.

Although responses have been received from managers for all the recommendations made, few recommendations are yet to be fully met but confidence was expressed that colleagues would be able to resolve these issues.

John Slater, Principal Auditor, was also present to respond to the Committee's questions:

- (a) Nottingham City Homes is able to borrow independently and build their own housing stock;
- (b) it is unlikely that the newly launched tenant incentive scheme will not cost as much as earlier reported;
- (c) arrangements are being developed that where homes become vacant, new tenancies should attract the target rent;
- (d) Council housing currently charges rents which are approximately 60% of the value of the current open market rent. The newly built houses offer affordable rents which are 80% of that on the open market;

Councillors comments included:

- (e) it is a concern that an £80 increase in rent is proposed over the next 5 years for council houses as this will encourage tenants to take advantage of the right to buy option;
- (f) the rent incentive scheme introduced this year has been fraught with difficulties;
- (g) it is a concern that the average private rented property in Nottingham is £25 per week more expensive than rented social housing when wages have effectively been reduced. This impacts most on the working poor;
- (h) it is a concern that the Housing Revenue Account is providing funds for new social housing when these properties are still eligible for tenants to purchase under the right to buy scheme;
- (i) with 500 council homes sold already this year through the right to buy scheme, it is vital that properties are selling for the highest possible price and that funds are recovered where any fraudulent activity is found;
- (j) 50% of all right to buy applications proceed, the majority of properties being family homes as these are a sound investment;
- (k) analysis of the areas/wards where council homes are selling has shown that values appear to vary significantly in different wards for the same build.

RESOLVED

- (1) to note the internal audit investigations and reports for Bulwell St Mary's Church England Primary School and Housing Rents, agreeing that the audit work is of a high quality and scope;**
- (2) that prior to any further audit reports being selected for detailed consideration by Audit Committee, member training is arranged, by the Head of Internal Audit, potentially including:**
 - (i) further information on the Council Housing 'Right to Buy' scheme and the valuation process;**
 - (ii) the workplace levy;**
 - (iii) the tram.**

14 CHAIR'S ANNUAL REPORT

The Chair introduced the report which summarises the work of the Audit Committee undertaken during 2013/14, explaining how this relates to the Committee's core responsibilities.

The Chair commended the Audit Team for the quality of training provided to members between meetings of the committee, in addition to the scheduled work.

RESOLVED to note the work undertaken and approve the report at appendix 1 for submission to the City Council meeting in October 2014.

15 INTERNAL AUDIT QUARTERLY REPORT 2014/15 (1ST QUARTER)

Shail Shah, Head of Internal Audit, presented the report which outlines the work of Internal Audit Service during the 1st Quarter of 2014/15.

It is noted that there is a backlog of audit reports which the Committee is yet to review.

RESOLVED

- (1) to note and applaud the performance of internal audit during the 1st Quarter of the year;**
- (2) for the Head of Internal audit to submit to the November meeting of the Committee, the full list of audits which the Committee is yet to review.**