

## **NOTTINGHAM CITY COUNCIL**

### **AUDIT COMMITTEE**

**MINUTES of the meeting held at LB31 - Loxley House, Station Street, Nottingham, NG2 3NG on 27 February 2015 from 10.31 - 11.48**

#### **Membership**

##### Present

Councillor Mohammad Aslam  
Councillor Michael Edwards  
Councillor John Hartshorne  
Councillor Thulani Molife (Vice Chair)  
Councillor Sarah Piper (Chair)

##### Absent

Councillor Roger Steel  
Councillor Malcolm Wood

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

Glyn Daykin	- Finance Analyst, Nottingham City Council
Barry Dryden	- Senior Finance Manager, Nottingham City Council
Shail Shah	- Head of Internal Audit, Nottingham City Council
Sue Sunderland	- External Audit Lead, KPMG
Richard Walton	- External Audit, KPMG
James Welbourn	- Governance Officer, Nottingham City Council
Laura Wilson	- Governance Officer, Nottingham City Council

#### **36 APOLOGIES FOR ABSENCE**

Cllr Roger Steel – other Council business  
Cllr Malcolm Wood – other Council business  
Geoff Walker – other Council business

#### **37 DECLARATIONS OF INTERESTS**

None.

#### **38 MINUTES**

The minutes of the meeting held on 28 November 2014 were confirmed and signed by the Chair.

#### **39 KPMG EXTERNAL AUDIT PLAN 2014/15**

Sue Sunderland, of external auditors KPMG, presented the External Audit Plan 2014/15, highlighting the following points:

- (a) the structure of the audit has followed the approach of previous years. The key audit risks are highlighted in the table on page 3 of the report, and a number of one-off risks have been highlighted, such as the new Revenues and Benefits company;
- (b) there are ongoing issues over the transfer to EMSS (East Midlands Shared Services). There are improvements happening all the time.

Another risk highlighted was NET2 (tram).

- (c) the fee for the audit has slightly increased, and reflects a similar increase that was seen last year. The fee for 2015/16 will reduce by 25% to reflect the final contract that audit have put in place; the scope of the audit will stay the same;

Councillor's questions were responded to as follows:

- (d) CIPFA (Chartered Institute of Finance and Public Accountancy) was asked to give advice to Council's on particular issues, after the closedown of the Audit Commission. Value for money issues now full under the remit of the NAO (National Audit Office). Currently, it is likely that The National Fraud Initiative will remain with the Cabinet Office.

Full revaluation of HRA (Housing Revenue Account) properties is done on a 5 year cycle, and will affect right to buy calculations;

- (e) specific risks in the report are around direct impact on NCC, with some items in the report linked to academies, and Foundation schools. In relation to management, academies are accountable separately rather than to Nottingham City Council. If things go wrong, the LA has to step in and deal with the situation;
- (f) there are increasing risks as the resource base reduces. There have not been any risks around financial controls identified for Nottingham City Council, so there is no need for KPMG to come in and look at these particular issues;
- (g) there is an increasing reliance on the partnership with the Third Sector. KPMG have been undertaking work on the Better Care Fund;
- (h) a wide range of issues are discussed when talking to senior Nottingham City Council officers; KPMG work with a range of different authorities, so they can bring a wide experience of Local Government issues. For example, Combined Authorities were mentioned at a recent meeting with Nottingham City Council officers;
- (i) the way in which Shared Services are implemented differs from authority to authority, but the risks generally remain the same;

- (j) KPMG have staff that can specialise in certain areas where required by their clients. The NET project at Nottingham City Council is something that has required this specialist knowledge;

**RESOLVED to note the audit plan for 2014/15, and thank KPMG for their input;**

#### **40 KPMG CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT**

Sue Sunderland, of external auditors KPMG, presented the Certification of Claims and Returns Annual Report, highlighting the following points:

- (a) the format to this report has been done differently to previous years' reports. This year, as the number of claims that are audited by KPMG has reduced, the need for a full report was not there; a letter has been produced in its place;
- (b) overall message of the report is that the content is the nature of what we find every year in a LA (Local Authority); especially when that LA has a high caseload. KPMG have worked with City Council staff, and tested cases, as well as following up on the recommendations from the previous year. These recommendations have been addressed appropriately;
- (c) the Audit will become more straightforward with the setup of Universal Credit. 10 members of staff working at the Audit Commission will be transferring to NAO, although this could take quite a while as Universal Credit is rolling out in phases;
- (d) the estimated fee for certification work in 2013-14 is slightly up on the indicative fee due to additional testing on Housing Benefit; this issue is still a 'moving picture';

**RESOLVED to thank KPMG for the annual report;**

#### **41 TREASURY MANAGEMENT 2015/16 STRATEGY**

Glyn Daykin, Finance Analyst presented the Treasury Management Strategy for 2015/16, highlighting the following points, and addressing questions posed by Councillors:

- (a) the latest inflation figures have dampened down expectations of the base rate being increased anytime soon. Changes in UK legislation mean an increased risk of Council taking losses on its investment;
- (b) minimum credit rating has been reduced to BBB+. This change allows for some flexibility, although the overall risk hasn't changed; 75% of close clients have reduced minimum risk criteria for this reason. Less, more secure investments are sought overall;
- (c) net borrowing cost has reduced, with overall treasury risk also being reduced. Nottingham City Council expects to borrow up to £15million, although there

could be some requirements for additional borrowing. Nottingham City Council is considering taking a forward starting loan, a product that fixes a loan rate now and allows cash to be taken at a later date (details are contained within Appendix 9 of the agenda pack). LA's are starting to look at these types of loans, but they are not common in the public sector. This would hedge against rates going up, especially if you have large schemes that need funding;

- (d) if we took lots of new loans now to obtain money whilst rates are lower, this money would have to be invested; there is a higher risk on deposits at this moment. In addition to this, interest would have to be paid on this money up until the point where the money was needed for a project.

Projects such as NET are ideal for a Forward Starting Loan, as they have fairly certain expenditure. The risk of rates going up in the future is reduced by using such a loan;

- (e) due to the current state of the economy, there is a risk in holding onto money. Banks cannot be trusted as they once were, due to a lack of Government support. If a bank gets into trouble, new legislation says that it cannot be bailed out. As an example, if a bank made 5% losses, the loss to the council could be 25-30%;
- (f) Forward Starting Loans are a new product for LA's, but have been used regularly outside of this area. The only risk encountered so far was in the initial stages, when Legal had to investigate whether it was possible for LA's to use this product;
- (g) Bond agency is a potential source of taking new debt, although it is still being established, and is not an option available to the council now. Some of the bigger authorities have looked at creating their own bond and putting it into the market. This carries a significant cost, and requires a lot of work on credit rating. Nevertheless, it can be considered as an option in the future;
- (h) a business case and feasibility studies are required as standard protocol for any major new schemes or investments. This catches all big ideas coming through the council. The cumulative risk to the authority for all schemes is kept under review by the Acting Chief Finance Officer;

**RESOLVED to:**

- (1) ask Glyn Daykin to write a memo to Councillors of this committee to assess the risks/benefits involved with Forward Starting Loans;**
- (2) bring a report on all capital schemes and values to the next meeting, so that Councillors can pick schemes that they would like to look at in more detail. This can be provided by a Capital Accountant;**

## **42 REVIEW OF ACCOUNTING POLICIES**

Barry Dryden, Senior Finance Manager presented the Review of Accounting Policies, highlighting the following points:

- (a) there are no significant changes to this review from last year. If KPMG recommend any significant changes to this review, Councillors can be notified at a future meeting;
- (b) KPMG interim visit is due week beginning 2 March. Items requiring scrutiny by KPMG are done during this interim visit, although slight tweaks can be performed outside of this visit if necessary;

### **RESOLVED to:**

- (1) agree the Statement of Accounting Policies for inclusion in the 2014/15 annual accounts;**
- (2) agree the proposals where International Financial Reporting Standards (IFRS) allow a degree of choice;**

## **43 ANNUAL GOVERNANCE STATEMENT- PROGRESS MADE TO DATE ON ISSUES REPORTED 2013/14 AND PROCESS FOR PRODUCING 2014/15 STATEMENT**

Shail Shah, Head of Internal Audit, presented the Annual Governance Statement, updating the Committee on progress made to date on issues reported in 2013/14, and the process for producing the 2014/15 statement. The following points were discussed:

- (a) progress is being made across all areas. The issue with Icelandic banks is now coming to a conclusion, with no further payments expected by the Local Government Association;
- (b) risks around the WPL (Workplace Parking Levy) remain, and these will be continually updated;
- (c) procedural issues, such as with EMSS (East Midlands Shared Services) pose some of the more significant risks. With EMSS specifically, the Oracle system is still evolving, which can cause problems. There are other significant risks around value for money; the Budget goes to Full Council on Monday 9 March. The future beyond March is hard to predict at the moment, as it depends on the outcome of the election in May;
- (d) risks experienced through EMSS cannot necessarily be copied across to other new products. For example, the new Revenues and Benefits contract is a completely different risk, and indeed, it was thought initially that the risks

associated with it are quite low, as it is not a big logistical move. The main risks encountered so far have been in relation to the Oracle software;

- (e) lessons can be learned from other organisations, and applied to Nottingham City Council. It is almost inevitable that new schemes will have 'teething' problems; these problems are picked up by the in-house Major Projects group, who lead on such issues;
- (f) there are ongoing meetings with departmental leadership teams and corporate directors around the 2014/15 statement. Findings will be reported in either the June, or July meeting;

**RESOLVED to:**

- (1) note the progress made to date in addressing the issues reported in the 2013/14 AGS (Annual Governance Statement), as detailed in Appendix 1;**
- (2) note the process and timetable for compiling and completing the 2014/15 AGS, as detailed in Appendix 2;**

**44 INTERNAL AUDIT QUARTERLY REPORT 2014/15 (THIRD QUARTER) AND INTERNAL AUDIT PLAN 2015/16.**

Shail Shah, Head of Internal Audit, introduced the Director of Strategic Finance's report which outlined the work of the Internal Audit (IA) service for the third quarter of 2014/15, and the proposed Internal Audit Plan 2015/16:

- (a) at the previous meeting of the Audit Committee, the external consultant's report on the IT department had been requested for review. Simon Salmon, Head of IT will present this report at the next meeting;

**RESOLVED to:**

- (1) note the performance of Internal Audit during the period;**
- (2) select the IT consultants report, and housing rents audit for examination at the Committee's next meeting;**
- (3) approve the Internal Audit Plan for 2015/16;**

**45 INTERNAL AUDIT REPORT SCHEDULED FOR EXAMINATION**

Shail Shah, Head of Internal Audit, introduced the Director of Strategic Finance's report which outlined the Internal Audit report on Bank reconciliations:

**RESOLVED to note the Internal Audit report in Appendix 1;**

**46 AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME**

Shail Shah, Head of Internal Audit, introduced the Director of Strategic Finance's report which outlined the core functions of the Committee, the benefits that will arise for the City Council and an outline annual work programme.

- a) the Committee were informed by Shail that the work programme will be kept updated and brought back to further meetings;

**RESOLVED to:**

- 1) note the functions of the Audit Committee and the benefits arising from its existence;**
- 2) endorse the outline work programme at Appendix 1 and the terms of reference at Appendix 2;**