

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LH 2.11 - Loxley House, Station Street, Nottingham, NG2 3NG on 16 September 2016 from 10.36 - 11.54

Membership

Present

Councillor Sarah Piper (Chair)
Councillor Steve Young (Vice Chair)
Councillor Leslie Ayoola
Councillor John Hartshorne
Councillor Anne Peach
Councillor Malcolm Wood

Absent

Councillor Dave Liversidge
Councillor Toby Neal
Councillor Andrew Rule

Colleagues, partners and others in attendance:

Tony Crawley) KPMG External Auditors
Richard Walton)
Shail Shah	- Head of Audit and Risk
Theresa Channell	- Head of Corporate Finance & Deputy Section 151 Officer
Sue Risdall	- Finance Team Leader Technical Accounting
Tom Straw	- Senior Accountant Capital Programmes
Jane O'Leary	- Insurance and Risk Manager
Catherine Ziane-Pryor	- Governance Officer

27 APOLOGIES FOR ABSENCE

Councillor Andrew Rule - leave

28 DECLARATIONS OF INTERESTS

None.

29 MINUTES

Subject to the following amendment, the minutes of the meeting held on 1 July 2016 were confirmed as a true record and signed by the Chair:

Minute 16, KPMG External Auditors Update: 'whilst the deadline for submitting accounts is the end of June, from May 2018 (not next year) this will be brought forward to the end of May.'

30 TRAINING SESSION - STATEMENT OF ACCOUNTS

Sue Risdall, Finance Team Leader Technical Accounting, and Tom Straw, Senior Accountant Capital Programmes, delivered a training session to the Committee on the Statement of Accounts, a copy of the presentation is included in the agenda and referred to the following topics:

- (i) purpose and background;
- (ii) format of the Statement of Accounts;
- (iii) key issues this year;
- (iv) Treasury Management Strategy;
- (v) accounting for pensions;
- (vi) the Comprehensive Income and Expenditure Statement;
- (vii) what money was spent;
- (viii) Other Comprehensive Income and Expenditure;
- (ix) Balance Sheet;
- (x) Reserve Balance;
- (xi) understanding the types of reserves including useable (general and earmarked), and unusable reserves;
- (xii) Cash Flow Statement;
- (xiii) Capital Spend;
- (xiv) Supplementary Accounts;
- (xv) the Housing Revenue Account;
- (xvi) Collection Fund;
- (xvii) Group Accounts.

The Committee welcomed the training and thanked Sue Risdall and Tom Straw.

31 STATEMENT OF ACCOUNTS 2015/16 INCLUDING THE KPMG EXTERNAL AUDIT REPORT 2015/16

Statement of Accounts 2015/16

Sue Risdall, Finance Team Leader Technical Accounting, Tom Straw, Senior Accountant Capital Programmes, and Theresa Channell, Head of Corporate Finance and Deputy Section 151 Officer, presented the Statement of Accounts and highlighted the following points:

- (a) there have been no major changes in the Statement of Accounts other than the report format which now provides a narrative following a change in the Code of Practice on Local Authority Accounting;
- (b) the Committee is asked to review and scrutinise the Statement to ensure it provides a fair and complete view of the Accounts;
- (c) the key issues identified this year include:
 - (i) The impact of reduced Government funding;
 - (ii) The short-term Treasury Management Strategy in light of the EU referendum result;
 - (iii) Pension Deficit of £623m at 31 March 2016 (this is reviewed every 3 years to set contributions to ensure that the deficit can be cleared in 18 years' time);
- (d) points highlighted within the Treasury management strategy included:
 - (i) attitude to risk;
 - (ii) reduction in long-term investment with more focus on short-term investment of a maximum of three months;

- (iii) significant increase in short-term investments to cushion the effects of the EU referendum.

Councillor's questions were responded to as follows;

- (e) with the growing trend for some small businesses to attempt to avoid business rates or appeal them, consideration is given to local intelligence and monitoring of premises, including cafes which extend seating to use outdoor space. Monitoring can be difficult but popular software packages which identify business sites on roadmaps have proved invaluable to the Counter Fraud Team. The City Council cannot charge business rates on listed buildings. It is the responsibility of owners to inform the City Council of any changes such as when larger premises are been divided into smaller units. However, changes in legislation and regulation will require a new approach;
- (f) Council Tax appeals are very different as appeals are usually lodged due to a change in circumstances. A specific team within Finance, liaise with the Counter Fraud Team and work to ensure the information provided in appeal is correct;
- (g) with regard to the level of general reserves set (£11 million), all reserves are set following comprehensive risk assessments and a range of consideration given to the level of cuts and savings required, medium-term financial plan, reductions central government grants, departmental issues. Currently set at 2-4% of the net budget received, this will be reduced on a sliding scale. The robustness of the budget and assessment of resources, signed off by the Strategic Director of Finance, is examined and the level of resources required considered, including watching the levels set by other local authorities. Is not advisable to use reserves for ongoing revenue expenditure. Finance team currently plan three or four years ahead on the Medium Term Financial Plan. The City Council needs to ensure that resources are available to enable transformation, sometimes by supporting short term funding gaps as grants are reduced/withdrawn, to enable changes to services to be implemented. Reserves are often considered an easy target but are vitally important to support the organisation through the transformation period of the next few years;
- (h) with regard to the £30 million difference between the actual and budget figures in 'total expenditure to be financed from capital sources', this is due to slippage which isn't unusual in such large capital programmes.

Colleagues from KPMG commented that as external auditors, they consider the financial arrangements, processes and planning of the City Council and do not comment on where and how funds should be allocated.

The Chair commented that future training on new business set up would be of interest.

KPMG External Audit Report 2015/16

Richard Walton and Tony Crawley, KPMG External Auditors, were in attendance to present their Audit Report for 2015/16 Statement of Accounts.

The following points were highlighted:

- (a) KPMG anticipate issuing an unqualified audit opinion on the financial statements by the end of September 2016, and confirms that the Annual Government Statement complies with the June 2007 guidance issued by CIPFA/SOLACE;
- (b) no material adjustments were identified;
- (c) the key significant financial statements audits risks are identified as
 - (i) NET2 with regard to accounting and associated Private Finance Initiative disclosures, specific to Nottingham;
 - (ii) controls over transactions, regarding the issues, now resolved, relating to the East Midlands Shared Services;
 - (iii) management override of controls. This risk is considered for every audited body but KPMG does not have any specific concerns regarding the City Council;
- (d) the accounts were received by KPMG in good time and are of a good standard;
- (e) the development of an in-house Core Statement Generator is working well and considered good practice;
- (f) with regard to risks for achieving value for money the following were identified;
 - (i) new possible group entity – Adducere;
 - (ii) delivery of savings plans - detailed consideration of the arrangements by which saving plans are agreed have not raised any concerns;
 - (iii) Better Care Fund - this was newly implemented this year and there are no concerns to raise;
- (g) the audit of financial statements is substantially complete and is predicted to meet the submission deadline for whole of government accounts of the end of October;
- (h) the key issues and recommendations of the audit include:
 - (i) with regard to the 2016/17 Northgate to Oracle Housing Benefit Payment Reconciliations 'the authority should expedite the implementation of the reconciliation of housing benefit payments between Northgate and Oracle';
 - (ii) with regard to the register of members interests, 'the authority should ensure that all members make an annual declaration to update a register of interests'.

Members of the KPMG Audit Team commended the City Council's Accounting Team for continued professional approach and communications during periods of great change within the Section.

RESOLVED

- (1) for the external auditors' report to those charged with governance' to be noted;**
- (2) for the Statement of Accounts, as attached to the report, to be approved and signed by the Chair of the Audit Committee;**

- (3) for the Draft Management Representation Letter, as attached to the report, to be approved and signed by the Chair of the Audit Committee.**

32 ANNUAL GOVERNANCE STATEMENT 2015/16

Shail Shah, Head of Audit and Risk, presented the Annual Governance Statement 2015/16 and highlighted two additional 'issues worthy of noting' following Councillors' discussions at the July Audit Committee meeting:

- (i) consideration of Blueprint Partnership Ltd and Robin Hood Energy;
- (ii) the Brexit Impact;

it is noted that there will be a further Annual Governance Statement update submitted to the February 2017 meeting of the Committee.

Next year the Authority will have to work to the new CIPFA/SOLACE Code so the presentation of the Annual Governance Statement will be in a different format.

Councillor's comments included:

- (a) further information on Blueprint Partnership Ltd would be beneficial, particularly the opportunity to speak to the City Council's regeneration specialist;
- (b) with monies still locked inside the Icelandic banks, a briefing update would be appreciated on the current situation.

RESOLVED to note the report and approve the Annual Governance Statement 2015/16 as attached to the report.

33 RISK MANAGEMENT FRAMEWORK AND UPDATE

Jane O'Leary, Insurance and Risk Manager, introduced the report which presents the Draft Risk Management Framework, and asks the Committee to consider it for approval.

Insurance and Risk are already working with key departments to refresh corporate risk registers and are satisfied that risk is considered and monitored but that processes will now need to comply to the framework.

Councillor's comments and questions were responded to as follows:

- (a) the internal risk process within the framework does link to external partners in two ways as referred to within the report which may be better illustrated in the final framework document with the diagram;
- (b) the framework does not refer to external information as this is primarily covered by legislation;
- (c) transparency is important so citizens will be able to access the main body of the Corporate Risk Register;
- (d) with regard to the regularity of monitoring, Departmental Risk Registers are expected to be considered regularly at Departmental Leadership Team (DLT)

meeting including identifying areas for improvement. Ideally consideration of risk should be part of the day-to-day work;

- (e) training the staff within each department to use the framework is important;
- (f) within the hierarchy of risk responsibility, Members of the Executive Board need to be included;
- (g) included within the framework training is the importance of ensuring that partners, including supply chains, provide up to date information on changes which may impact and result in an element of risk to the City Council;
- (h) risk register and risk consideration training will be available for members of the Audit Committee;
- (i) further information will be sought with regard to the value of all City Councillors having access to 'Covalent'.

RESOLVED to approve the Risk Management Framework and its delivery strategy, as set out within the report.

34 EXCLUSION OF THE PUBLIC

RESOLVED to exclude the public from the meeting during consideration of the remaining item in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all of the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

35 EXEMPT MINUTE

The exempt minute of the meeting held on 1 July 2016 was confirmed as a true record and signed by the Chair.