

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at Loxley House on 28 February 2014 from 10.30am to 1.05pm

- ✓ Councillor Sarah Piper (Chair)
- ✓ Councillor Thulani Molife (Vice Chair)
- ✓ Councillor Mohammad Aslam
- ✓ Councillor Georgina Culley
- ✓ Councillor Michael Edwards
- ✓ Councillor John Hartshorne
- ✓ Councillor Toby Neal (minutes 36-44 inclusive)
- ✓ Councillor Roger Steel
- ✓ Councillor Malcolm Wood

✓ indicates present at meeting

Colleagues, partners and others in attendance:

| | | |
|------------------|--|-------------------------|
| Laura Catchpole | - Policy Officer | - Chief Executives |
| Alison Michalska | - Corporate Director for Children and Families | - Children and Families |
| Paul Hutchings | - Audit Manager |) |
| Sue Sunderland | - Audit Manager |) KPMG |
| Alistair Cowen | - Auditor |) |
| Shail Shah | - Head of Internal Audit |) |
| Simon Burton | - Risk Manager |)Resources |
| Barry Dryden | - Senior Finance Manager |) |
| Chris Common | - Organisational, Planning and Performance Manager |) |
| Pete Guest | - Treasury Manager |) |
| Glyn Daykin | - Assistant Treasury Manager |) |
| Catherine Pryor | - Constitutional Services |) |

31 APOLOGIES FOR ABSENCE

Councillor Malcolm Wood (Other Council Business)
Councillor Georgina Culley

32 DECLARATIONS OF INTERESTS

Although no declarations were declared at this point in the meeting, during consideration of agenda item 'Strategic Risk Register 2013/14 - Quarter 3 (minute 37), Councillor Thulani Molife asked the Committee to note that he has previously undertaken inspections of schools, although he wasn't required to declare this as an interest.

33 MINUTES

The minutes of the meeting held on 29 November 2013 were confirmed and signed by the Chair.

34 EXTERNAL AUDIT PLAN 2013/14

Sue Sunderland, Paul Hutchings and Alistair Cowen of the External Auditors KPMG attended the meeting to present the plan and drew the Committee's attention to the 'Headlines' section, highlighting the following points:

- (a) the approach of KPMG remains the same as the previous year and was carried out in four stages agreed with the Senior Finance Manager;
- (b) the audit strategy and plan remain flexible and the initial assessments will be reviewed throughout the year with any new risks being responded to accordingly;
- (c) an initial risk assessment for the financial statements audit identified LGPS triennial valuation as a significant risk;
- (d) other areas requiring audit focus include the new ledger system (Oracle) and the new shared services (East Midlands Shared Services);
- (e) within value for money, the Council's arrangements for securing financial resilience of its financial standing, including the medium term financial plan, were identified as a risk;
- (f) there has been a change in team members and Kay Meats is now the main point of contact for all on site work;
- (g) the main year end audit is scheduled to start on 30 June 2014 and the results will be reported to the Committee in September as 'Report to Those Charged with Governance';
- (h) the planned fee for the 2013/14 audit, as set out in the Audit Fee Letter 2013/14, remains £228,420.

Colleagues responded to questions and comments from the Committee as follows:

- (i) testing of the Oracle system is due to start on 10 March as part of the Annual Audit. Internal Audit have been involved in the transition process but now external auditors will examine the past twelve months of the transition;
- (j) there has been concern regarding the accounts payable, as it is a three way mechanism involving purchase, invoice and goods received. However, following thorough testing, it was found that the Council is only paying for the goods ordered;
- (k) in relation to areas of change which may present a risk, such as the bedroom tax and local procurement, External Auditors purely focus on what arrangements the Council has in place in preparation and do not have the remit to investigate such points in detail unless specific issues arise or they are requested to do so;
- (l) where global risks are assessed, there is no indication that any issues would arise for the Council.

RESOLVED to note the External Audit Plan 2013/14.

35 CERTIFICATE OF GRANTS AND RETURNS 2012/13

Sue Sunderland of KPMG presented the report which has now been finalised, issued and is unchanged from the draft version supplied with the agenda.

The following points were highlighted:

- (a) an unqualified certificate was issued for 'National Non Domestic Rates Return';
- (b) three qualified certificates were issued for;
 - o Housing and Council Tax Benefit;
 - o Pooling of Housing Capital Receipts;
 - o Teachers' Pensions Returns';
- (c) one minor adjustment was required on Housing and Council Tax Benefit;

Colleagues responded to questions and comments from the Committee as follows:

- (d) Teachers' pensions are only paid to central Government and central Government pays the teachers;
- (e) Housing and Council Tax Benefit is the most complicated of the three certificates issued in that a local authority of Nottingham's size with the number of claims placed produces an inherent risk of errors;
- (f) there will be on-going checks during this year so KPMG will be working closely with the Head of Revenue and Benefits.

RESOLVED

- (1) to record the Chair's thanks to KMPG representatives for their work and attendance;**
- (2) to invite the Head of Revenue and Benefits to a future meeting to explain what mechanisms have been implemented to ensure that errors are kept to an absolute minimum.**

36 PROTECTING THE PUBLIC PURSE 2013

Shail Shah, Head of Internal Audit, presented the Audit Commission report which outlined how Nottingham City Council's fraud levels compared to metropolitan districts and unitary authorities of the West Midlands, East Midlands and East of England regions.

The following points were made:

- (a) Fraud in England costs local government £2 billion per year;
- (b) Nationally 107,000 fraud cases were detected during 2012/13 with a value of £178 million. This consisted of £120 million of Housing Benefit and Council Tax Benefit, £19.5 million of Council Tax discount and £38.5 million of 'other' fraud;
- (c) the number of detected fraud has fallen by 14% since 2011/12 but the value of that fraud has only decreased by 1%;
- (d) detected fraud is indicative, not definitive of counter fraud performance;
- (e) no detected fraud does not mean that fraud was not committed;

- (f) if fraud is looked for in the right way it can be found;
- (g) excluding housing fraud, Nottingham City Council detected 1,495 cases of fraud, valued at £1,070,990 in 2012/13. Detection in other councils ranged from just over 3,500 cases to approximately 100 cases, ranging in value from £100,000 to over £4,500,000.

Mr Shah responded to the Committee's questions and comments as follows:

- (h) Internal Audit will consider and monitor the controls in place and then focus on the areas where most cases arise;
- (i) good practice is shared with other councils but it is not possible to identify the individual councils against the individual results presented in the report;
- (j) It is predicted that the way Council's report Blue Badge fraud is not consistent in detail. The Nottingham figure does not solely relate to stolen or counterfeit badges but fraudulent or incorrect use. Of the 355 recorded cases of Blue Badge fraud, there were 2 prosecutions and 250 penalty charge notices issued;
- (k) there are good control measures in place for detecting Housing Benefit and Council Tax Benefit fraud and the level of detected fraud is to be expected. Once the instances of Council Tax single person discount fraud is deducted, the general fraud figures are significantly reduced;
- (l) This report shows Nottingham compares very well against its peers and the City Council has robust counter fraud mechanisms in place.

RESOLVED

- (1) to note the report;**
- (2) to request Shail Shah, Head of Internal Audit, to arrange an elected members closed training session on Social Housing and Right to Buy fraud.**

37 STRATEGIC RISK REGISTER 2013/14 - QUARTER 3

Simon Burton, Corporate Risk Specialist, and Alison Michalska Corporate Director for Children and Families, were in attendance.

Alison Michalska, presented a critical appraisal in response to the Committees request to consider Strategic Risk 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'. She made the following points:

- (a) of the 7 secondary schools which Ofsted had recently inspected, all 7, consisting of maintained and independent schools, were considered inadequate. A major review of education in Nottingham will be carried out by a Challenge Group;
- (b) it is important for the future and wellbeing of our young people that education is improved as they are the workforce of the future;
- (c) this year, key stage 4 pupils achieved the best ever results within the city with 70-80% of pupils at 4 city schools achieving GCSE qualifications. When

- considering the cohorts of children in city schools, it is unlikely that some schools will achieve this level;
- (d) it is important that children improve and progress and not just achieve a certain standard, including pupils with the most complex needs such as those with learning disabilities;
 - (e) Ofsted commented that Nottingham city school children are not achieving at the same level as pupils attending schools in other Core Cities and that the quality of some teaching is a weakness;
 - (f) attracting quality teachers to city schools and also retaining them must be achieved. Incentives could be considered, including the level and quality of support and what the city as a whole can offer. For newly qualified teachers, one of the main issues is the level and quality of support, including mentoring, offered to them in their first year, but also beyond. This is something which the Challenge Group is considering;
 - (g) attendance and behaviour are important issues across the whole city with attendance sometimes linked to low level behavioural issues. Colleagues are now exploring whether such behaviour is influenced by a particular culture. This will include investigating how low level disruption at school may be linked to crime, and disrespectful and aggressive behaviour. The influence of parents will also be considered as well as how to address the issues and how to motivate a fundamental shift of attitude in some families;
 - (h) truancy is not often the main reason for pupil absences, rather it is some parents allowing their children to stay home from school as they do not consider their children's school attendance to be of much value. It is important to appropriately challenge this attitude and support parents to get their children to school;
 - (i) healthy diets for children and families are to be encouraged within the 'Small Steps, Big Changes' programme, but not all pupils in the failing schools have a restricted diet and this presumption must not be made;
 - (j) the 'Challenge Board', set up following the Ofsted inspection, is driving improvement in not just the 7 inspected schools in the city, but all city schools which are in special measures;
 - (k) the Challenge Board has, according to its remit, expressed its commitment to improve education for all city children, regardless of which school they attend to Ofsted and Department for Education (DfE);
 - (l) Nottingham city schools need to employ the best quality Head Teachers that can be afforded and ensure that between the Head Teachers and the Governors, there is a strong governance structure in place;
 - (m) the value of governors is recognised so to help build and develop the role, improved governor training is required to ensure that all governors are aware of what to look for and are able to ask relevant questions to identify emerging or potential issues;
 - (n) since the inspection of the academies, two have made excellent progress but one is making very slow progress so the DfE is considering taking action;
 - (o) the Challenge Board has commented that becoming an academy is not the solution to being placed in special measures;
 - (p) Academies do not have to employ qualified teachers but Ofsted is trying hard to change this and it is hoped that academies will embrace what is found to be best practice;
 - (q) it is a concern that nationally, 67% of current Head Teachers are aged 50 years or over - this could potentially result in a void;

- (r) Ofsted does not want to re-inspect the seven schools until they are ready to be judged as 'good'. The ambition is that all schools will achieve 'good' or better within the next 2 years. Work continues with the Challenge Board and Ofsted to ensure that this is achieved.

Members of the Committee made the following points:

- (s) social and economic factors play a large part in pupil's attainment, as does the social and cultural attitude of parents in choosing or rejecting certain schools for their children;
- (t) the quality of teaching and leadership are the two of the most important elements for schools. If quality teachers cannot be attracted to the city, then the reasons for this need to be examined. The Work Place Parking Levy may contribute to deterring new teachers;
- (u) progress is being made to readdress some of the cultural attitudes towards education in the city, including behaviour and attendance, but in doing this, it is vital that schools and parents support each other.

It was noted that Strategic Risk, SR29, the 'Public Health Risk', 'failure to establish an effective Public Health function with adverse impact on the citizen wellbeing and a failure to deliver the authority's statutory responsibilities', which the Committee resolved to consider at this meeting, is deferred to the next Risk Register 2013/14 update.

RESOLVED

- (1) to note the Committee's review of 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;**
- (2) to note the progress made on reducing the seriousness of the Council's strategic risks as reflected by their threat levels and Direction of Travel (DoT) for Q3 2013/14;**
- (3) to note the results of the review of the Strategic Risk Register by the Corporate Leadership Team;**
- (4) to consider SR29, 'failure to establish an effective Public Health function with adverse impact on the citizen wellbeing and a failure to deliver the authority's statutory responsibilities' as part of the SRR Q4 2013/14 Update at the next meeting.**

38 A REVISED PERFORMANCE MANAGEMENT FRAMEWORK FOR NOTTINGHAM CITY COUNCIL

Chris Common, Organisational Planning and Performance Manager, presented the report which asks the Committee to approve for adoption of the revised Performance Management Framework (PMF) for Nottingham City Council.

The new PMF:

- (a) is simpler, up to date and reflects prevailing good practice
- (b) aligns with the Council's commissioning cycle (Analyse, Plan, Do, Review/Revise)
- (c) sits within the context of Good to Great, Citizens at the Heart and the current external environment (policy, economic, demographic and financial)
- (d) Reflects the availability and use of Covalent as the corporate business management tool.

The revised PMF sets out the high level approach the Council will take to performance management, ensuring that all are:

- (b) clear about what to achieve, by when and by whom;
- (c) focussing resources and action on the right outcomes;
- (d) aware of how things are going;
- (e) reporting on progress – to both internal and external audiences;
- (f) able to quickly access effective support.

The revised PMF:

- (g) sets out the principles of our performance culture and how this can be sustained;
- (h) applies to all levels of Council activity;
- (i) defines the roles, responsibilities and reporting arrangements for all involved;
- (j) has a broad scope, which includes strategic business planning, risk management, workforce planning, performance appraisal (which has also been substantially refreshed) and performance monitoring and management at team, service, departmental and organisational levels;
- (k) has wider links to the Council's Transformation Portfolio.

RESOLVED

- (1) to approve for adoption the revised Performance Management Framework for Nottingham City Council;**
- (2) to receive an update on the implementation of the revised Performance Management Framework in one year's time.**

39 TREASURY MANAGEMENT 2014/15 STRATEGY

Pete Guest, Treasury Management Officer, presented the report which asked the Committee to consider, comment on and approve the Treasury Management Strategy 2014/15 prior to its consideration by Full Council on 3 March 2014.

This document sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place in the forthcoming year. Within this context, the objectives of the strategy are:

- to achieve the lowest net interest rate costs on the City Council's external debt, whilst recognising the risk management implications;

- to protect the Medium Term Financial Strategy (MTFS) from fluctuations in interest rates and to prevent the need for excessive borrowing in future years, when rates may be unfavourable;
- to maintain the security and liquidity of external investments, and within those parameters, to seek to maximise the return on such investments.

The main elements of the proposed strategy for 2014/15 are:

- Borrowing requirement and strategy
- Debt restructuring
- Debt repayment (Minimum Revenue Provision statement)
- Housing Revenue Account strategy
- Investment strategy
- Prudential indicators
- Risk Management Action Plan

Peter Guest added the following information:

- (a) investment is a risk internationally and while the Local Authority has considered UK banks to be financially sound, the governments of the UK, Europe and USA do not want to provide another bail out should the need arise, and so are working together on 'bail in' arrangements. If a bank is in trouble, then the first course of action will be for shareholders and investors to 'take a hit'. As retail deposits will be included in the regulations, there is a possibility that there could also be an impact on local authorities;
- (b) in 2012 Nottingham undertook a lot of advanced borrowing to fund the tram and also halved the level of investment. To try and keep Nottingham City Council's level of investment low, the Council is under borrowing and using 'surplus cash to finance the capital programme as this results in reduced risk;
- (c) there is an increase in local authority lending to local authority as they will get a better rate of return and central Government currently guarantees local authority debt.
- (d) other forms of protected investment will also be investigated, including covered bonds although there will be less money invested in the future.

Peter Guest responded to committee members' questions as follows:

- (e) the stock market is artificially high at the moment, central Government want to avoid a repeat of the 2008/09 crash and will be unlikely to provide more bail outs;
- (f) in relation to pension funds, a lot of money has been switched to bonds as these offer better protection but could, under the proposed plans, be subject to 'a financial hit';
- (g) the suggestions of the City Council's independent financial advisors, Arlingclose, are always considered and while they have provided a list of 'safe' counterparts, it is always the City Council's decision as to what suggestions are acted upon.

RESOLVED

- (1) **to note the proposed 2014/15 Treasury Management and investment Strategies;**
- (2) **to ask Peter Guest to circulate to committee members the latest list of eligible counterparties for investment as advised by the City Council's independent financial advisors Arlingclose.**

40 PARTNERSHIP GOVERNANCE - REMOVAL OF CASTLE CAVENDISH FROM THE REGISTER OF SIGNIFICANT PARTNERSHIPS

Laura Catchpole, Corporate Policy Team, introduced the report which asks the Committee to consider approving the removal of Castle Cavendish from the register of significant partnerships as they no longer fit the required criteria.

RESOLVED to approve the removal of Castle Cavendish from the Register of Significant Partnerships.

41 ANNUAL GOVERNANCE STATEMENT - PROGRESS MADE TO DATE ON ISSUES REPORTED 2012/13 AND PROCESS FOR PRODUCING 2013/14 STATEMENT

Shail Shah, Head of Internal Audit, presented the report which updated the Committee on the issues reported in the 2012/13 Annual Governance Statement (AGS) and outlined the process and timetable from February to September 2014 for producing the 2013/14 AGS.

Updates on issues included:

- Single Status;
- Central Government Review of Local Government Funding & Balancing the Council's Budget;
- Children in Care;
- East Midlands Shared Services;
- Nottingham Express Transit;
- Work Place Parking Levy;
- Icelandic Banks.

The process for producing AGS 2013/14 is outlined as follows:

- support throughout the process will be given by Internal Audit and the Head of Internal Audit;
- as a result of self assessment via customised questionnaires, targeted at the appropriate assurance givers and based on the Council's Code of Corporate Governance, a set of assurances will be obtained from the Leader of the Council, key colleagues including Corporate Directors, individuals with statutory roles, significant groups and significant partnerships;
- the questionnaires will be supported by advice and guidance from Internal Audit;
- completed questionnaires will be supplemented by other governance related information extracted from Council policies and strategies, internal and

- external assurance providers, Council, Board and committee minutes, and the annual review of governance arrangements in significant partnerships;
- the final AGS will be an account of the Council's governance arrangements and reflect the failings identified, note actions put in place to address them.
 - once approved the AGS will be published with the City Council's Statement of Accounts.

The Committee noted that of the £41.600 m deposited with Icelandic Banks, it is estimated that the City Council will recover £41.028 m.

RESOLVED

- (1) to note the progress made to date in addressing the issues reported in the 2012/13 Annual Governance Statement;**
- (2) to note the process and timetable for compiling and completing the 2013/14 Annual Governance Statement.**

42 INTERNAL AUDIT PLAN FOR EAST MIDLANDS SHARED SERVICES

Shail Shah, Head of Internal Audit, presented the report which outlined the work done by Internal Audit for East Midlands Shared Services (EMSS) and the Internal Audit Plan for EMSS.

RESOLVED

- (1) to note the progress on the 2013/14 audit work planned and completed to date;**
- (2) to note the proposed EMSS 2014/15 Audit Plan.**

43 INTERNAL QUARTERLY REPORT 2013/14- QUARTER 3

Shail Shah, Head of Internal Audit, presented the report which outlines the work of Internal Audit for the third quarter of 2013/14.

The performance of Internal Audit is either on or above target for 2013/14 and planned audits are all on track.

RESOLVED

- (1) to note the performance of Internal Audit during the third quarter period;**
- (2) to examine Building Compliance (Strategic Asset and Property Management within Development) and Fines Processing (Community Protection within Communities) at the Audit Committee Meeting scheduled for June / July 2014.**

44 AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PLAN

Shail Shah, Head of Internal Audit, introduced the report which detailed the functions of the Audit Committee and presented the Terms of Reference and proposed schedule of work for the following municipal year.

RESOLVED

- (1) to note the functions of the Audit Committee and the benefits arising from its existence;**
- (2) subject to the inclusion of resolutions made at this meeting, to note the Audit Committee work programme for 2014/15;**
- (3) to endorse the Terms of Reference for the Audit Committee.**