

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG on 22 September 2017 from 10.31 am - 11.38 am

Membership

Present

Councillor Sarah Piper (Chair)
Councillor Leslie Ayoola
Councillor Rosemary Healy
Councillor Anne Peach
Councillor Andrew Rule
Councillor Adele Williams

Absent

Councillor Steve Young
Councillor John Hartshorne
Councillor Malcolm Wood

Colleagues, partners and others in attendance:

Tony Crawley - KPMG External Auditor
Jane O'Leary - Insurance and Risk Manager
Sue Risdall - Finance Team Leader, Technical Accounting
Shail Shah - Head of Audit and Risk
John Slater - Group Auditor
Thomas Tandy - KPMG External Auditor
Geoff Walker - Chief Financial Officer
Zena West - Governance Officer

17 APOLOGIES

Councillor John Hartshorne – other council business
Councillor Steve Young – unwell
Councillor Malcolm Wood – other council business

18 DECLARATIONS OF INTERESTS

None.

19 MINUTES

The minutes from the meeting held 14 July 2017 were agreed and signed by the Chair.

20 URGENT ITEM - EXCLUSION OF THE PUBLIC

Although it was not included on the agenda, the Chair of the Committee agreed that the exclusion of the public, Statement of Accounts 2016/17 – exempt information, and the re-admission of the public should be considered as a matter of urgency in accordance with Section 100b(4)(b) of the Local Government Act 1972. The decision could not wait until the next meeting of Audit Committee, as members of Audit Committee now required exempt information on the statement of accounts in order to make an informed decision.

RESOLVED to exclude the public from the meeting.

21 URGENT ITEM - STATEMENT OF ACCOUNTS 2016/17 - EXEMPT INFORMATION

RESOLVED to note the exempt information.

22 URGENT ITEM - RE-ADMISSION OF THE PUBLIC

RESOLVED to re-admit the public for the remaining agenda items.

23 STATEMENT OF ACCOUNTS 2016/17

Geoff Walker, Chief Financial Officer at Nottingham City Council, presented a report on the statement of accounts for 2016/17, highlighting the following points:

- (a) the external auditors have completed the audit and reported their findings in the report to committee. As part of the audit, KPMG require the Council to present a management representation letter to confirm that the Statement has been constructed accurately and on appropriate basis and that relevant and complete disclosures have been made. The Statement of Accounts was approved by Strategic Director of Finance Geoff Walker and handed over for audit from 12 June. The report to committee is to give some high level information.
- (b) there are new reporting requirements for 2016/17 which has resulted in significant presentational changes to the accounts. These are designed to make the statement more user friendly, effective and understandable. The cost of services in the Comprehensive Income and Expenditure Account (CIES) is no longer based on the standard headings in CIPFA's Service Reporting Code of Practice (SERCoP), but is now presented by portfolio to align to internal reporting.
- (c) there is some additional information contained within a new expenditure and funding analysis note. Some items have to be removed before council tax can be calculated, so the report takes out all the items which cannot be included, to arrive at the figure chargeable for council tax;
- (d) the narrative report replaces the explanatory forward on previous statements of account, and helps to set the scene;
- (e) there have been some minor amendments to the draft version of the statement of accounts, which was published on the Nottingham City Council website in June – the changes have been agreed with KPMG and incorporated into the final version. There have been no changes to the key financial statement which impact on the General Fund or Housing Revenue Account. The figures on the balance sheet between short and long term debtors have been reclassified to align them to the PFI (Private Finance Initiative) model used;

- (f) the figure showing a revaluation gain for council dwellings is now shown separately as an exceptional item, this is just an accounting entry and does not represent any available extra funds;
- (g) there have been some minor changes in the notes to provide further clarity, and the group accounts are yet to be received.

RESOLVED to delegate authority to the Chair of Audit Committee to:

- (1) formally sign off the statement of accounts 2016/17 once the information on the group accounts is complete;**
- (2) sign the draft letter of representation.**

24 KPMG - REPORT TO THOSE CHARGED WITH GOVERNANCE

Tom Tandy and Tony Crawley, from external auditors KPMG, presented their report to the Committee, highlighting the following points (page numbers refer to pages within the supplementary agenda pack):

- (a) page 176 lists those issues still outstanding, including resolution of the impact of estimated pensions data, which is further detailed on page 180. There has been a particular issue whereby estimated data being used may present too wide a margin of error. Every 3 years the pensions data is evaluated country wide. Nottingham City Council's scheme is run by Nottinghamshire County Council. Data was requested for 3 years to 15/16 and the actuary then completes a member by member analysis and updates the viability, which then sets contribution rates from 17/18 onwards. Because of an issue between Nottingham City Council and Nottinghamshire County Council systems, estimated data was used for 15/16. The actuary initially appeared to be comfortable using estimated figures, but it became apparent that there was a significant difference between estimates and actual figures. KPMG then brought in their own actuary to assess the issue, and to clarify whether the difference in the estimate will cause a material impact to the actual figure. An answer is expected in the next few days;
- (b) no issues have been raised from citizens. Electors can challenge accounts and asks questions but nobody has. A certificate can now be issued to close the audit, and an unqualified value for money conclusion produced;
- (c) page 181 sets out the risk of the significance of the subsidiaries of the group accounts, following on from discussion at the July 2017 meeting of the Audit Committee. One of the components had significantly increased, and KPMG assessed all components and group members to see if there were any other significant components. Given the significance of growth, RHE (Robin Hood Energy) will need to be monitored, and Nottingham City Council colleagues have kept KPMG informed on these developments. KPMG have liaised with BDO (auditors) and need them to confirm their procedures, which will be closed off alongside the auditors' statement;

- (d) also detailed on page 181 are 2 standard risks. KPMG look at 2 areas: fraud risk of revenue recognition, and management override of controls. These are not usually issues within the public sector, as the motivations do not exist as they do within the private sector, but these risks are an audit industry standard and so must be addressed;
- (e) page 182 details other areas of audit focus – issues which do not qualify as a significant risk but are still important. The income and expenditure account has been revamped, and as a result it looks quite different. Last year's figures have also been revamped so as to provide some comparative figures;
- (f) on page 183, further detail is provided about property valuation of Nottingham City Council housing stock. The government has applied a discount value to council tax dwelling of 42%, an increase from 34% for the previous year. This has led to a significant revaluation gain, and given the exceptional nature of this revaluation gain, KPMG agrees with Nottingham City Council that the figures should be shown separately;
- (g) on pages 184 and 185, the auditor fulfils their requirement to look at potential manipulation of the figures. Whilst it would be possible to move figures around, KPMG feels that Nottingham City Council has taken a balance approach to their accounting estimates;
- (h) on page 186, an issue is noted regarding deferred costs over the life of NET 2. This is a minor technical issue, which came to light fairly late in the process. Whilst it is below materiality, it still requires approval by Audit Committee (see recommendations);
- (i) page 187 notes that a complete set of accounts was required by 12 June 2017. Next year the deadline will be 31 May 2018. To get audited accounts by the end of July is a massive task, and next year may prove challenging. The quality of working papers has been very high, and Nottingham City Council have helped the task by having a responsive and cooperative finance department;
- (j) there are some IT issues that have been mentioned at previous meetings. The issues surrounding leavers access to Northgate has been addressed. A formal SLA (Service Level Agreement) with EMSS (East Midlands Shared Services) is also still outstanding;
- (k) page 188 shows the statement of completion. KPMG are required to declare positively that there are no objectivity issues between KPMG and Nottingham City Council, which they are able to do. This requirement is a remnant from previous decades when auditors were obstructed from completing their task in some cases, but that has not been an issue here;
- (l) pages 190-192 shows the value for money considerations, with criteria set by the National Audit Office;
- (m) pages 193-194 set out considerations for value for money risks. There has been a slight overspend but that will be ironed out next year. There have been

concerns around resourcing due to the Sustainability and Transformation Plan. Action is being taken to address these issues, and Nottingham City Council recognises that money is unlikely to come through. This will need re-visiting in 2017/18;

- (n) discussion has taken place with Audit Committee regarding Robin Hood Energy, and how the nature of some groups is quite different to most local government subsidiaries. KPMG will be following through in terms of Audit Committee's oversight;
- (o) the independence and objectivity statement on page 203 is an expansion of earlier declarations;
- (p) a report will be presented early in 2018 with the outcome of grants. All work has been done as individual tasks so they will need to be reported on separately (page 204);
- (q) page 205 details the audit fees. The additional fee for additional work in several areas will be worked out with Geoff Walker, and will then need approval by Audit Committee at a later date.

Tom Tandy, Tony Crawley and Geoff Walker then provided further information as a result of questions, comments and discussion from Audit Committee:

- (r) no breach has occurred as a result of using estimated pensions data, this was required due to the sheer number of authorities to work through – some were required to use estimated data. The actuaries are aware of our deadlines, and an outcome is expected soon, but it is more important to have correct information than rushed information;
- (s) the expectation on the group accounts would be for them to be received on time, and Nottingham City Council colleagues have been engaged early on in the process. There have been different reasons for delay from different companies, and now there are practical issues of getting them signed. The Board meetings to sign off accounts have been left very late, given the deadlines. Nottingham City Council's influence should be exerted more robustly next year to ensure compliance with the earlier deadlines, and expectations need to be made clear. There are no costs to the delay, just practical issues.

RESOLVED to:

- (1) thank Tom and Tony for the presentation, and note the contents of the report;**
- (2) revisit the non-material misstatement in relation to the classification of NET 2 disclosures for the 2017/18 statements.**

25 ANNUAL GOVERNANCE STATEMENT 2016/17

Shail Shah, Head of Audit and Risk at Nottingham City Council, presented a report on the annual governance statement 2016/17 to the Audit Committee, and circulated an updated copy signed by the Leader and Chief Executive (attached to the minutes). The interim Annual governance statement came to the Committee in July, and as a result of comments changes were made in the section about the response to the Grenfell residential tower block fire. An additional statement was added on the advice of KMPG, to explicitly state that Nottingham City Council has complied with the CIPFA guidance on the role of the Chief Finance Officer.

Tony Crawley of KPMG indicated that he had reviewed and was satisfied with the annual governance statement as part of the external audit.

RESOLVED to thank Shail for the report, and approve the annual governance statement 2016/17.

26 CORPORATE RISK REGISTER UPDATE

Jane O'Leary, Insurance and Risk Manager, presented an update to the Committee on the corporate risk register. The report shows those risks which have de-escalated from the risk register into departmental risk management at 2.5, and those which have escalated from departmental risk management onto the corporate risk register at 2.6. Work is currently taking place on the quarter 2 register, and will be reported to the next meeting of Audit Committee. This work includes discussions which took place at the July meeting about governance arrangements for wholly owned companies.

RESOLVED to:

- (1) thank Jane for the update, and note the risks identified on the corporate risk register.**
- (2) select SR13 Social Care Sustainability for review at a future committee meeting.**

27 REVIEW OF BEST PRACTICE IN COMPANY GOVERNANCE -TERMS OF REFERENCE

Shail Shah, Head of Audit and Risk for Nottingham City Council, presented a report on the terms of reference for the review of best practice in company governance. A good discussion took place at the July meeting, covering the scope of the planned review. Work has started and an update will be presented to the November Audit Committee. Governance arrangements need to be in place ahead of approving group accounts again this time next year.

RESOLVED to thank Shail for the update, and approve the proposed terms of reference for the review of best practice in company governance, as detailed in appendix 1 of the report.