

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG on 20 July 2018 from 11.30 am - 1.05 pm

Membership

Present

Councillor Michael Edwards (Chair)
Councillor Leslie Ayoola
Councillor Cheryl Barnard
Councillor John Hartshorne
Councillor Rosemary Healy
Councillor Anne Peach
Councillor Andrew Rule
Councillor Adele Williams
Councillor Steve Young

Absent

Colleagues, partners and others in attendance:

Nancy Barnard	- Governance Manager
Theresa Channell	- Head of Strategic Finance
Tony Crawley	- KPMG External Auditor
Arvinder Khela	- KPMG External Auditor
Jonny Kirk	- Access to Learning Service Manager
Nick Lee	- Head of Access and Learning
Laura Pattman	- Strategic Director of Finance
Sue Risdall	- Financial Team Leader, Technical Accounting
Shail Shah	- Head of Audit and Risk
John Slater	- Group Auditor
Tom Straw	- Technical Finance
Tom Tandy	- KPMG External Auditor

15 APOLOGIES FOR ABSENCE

None

16 DECLARATIONS OF INTEREST

None

17 MINUTES

The minutes of the meeting held on 22 June 2018 were confirmed as a correct record and signed by the Chair.

18 STATEMENT OF ACCOUNTS 2017/18

The Chair agreed to take agenda items 4 and 5 at the same time.

Tony Crawley, Tom Tandy and Arvinder Khela of KPMG presented the External Audit ISA260 Report 2017/18 to the Committee which summarised the key findings in relation to KPMG's 2017/18 external audit at Nottingham City Council. They also circulated a letter dated 18 July 2018 to Committee members. The letter was added to the agenda after the meeting. During the presentation of the report, the following points were highlighted:

- a) Nottingham City Council's accounts are very complex and the timescale for submission this year was shortened. Despite this, the auditors reported an impressive level of co-operation from finance colleagues in providing accounts from across the group by the deadline. KPMG expressed their thanks to colleagues for this.
- b) Regarding the process for signing off the accounts, the majority of Councils do this one week later than Nottingham. Tony Crawley suggested that delaying this meeting by one week next year might be beneficial.
- c) The Auditors' key findings were summarised as follows:
 - i) Organisational and IT control environment
No significant issues were identified and overall arrangements in place are reasonable.
 - ii) Controls over key financial systems
The majority of key financial systems are sound. A recommendation was made in relation to building journal controls into the fit for the future programme.
 - iii) Accounts Production
The overall process is sound and accounting practices are appropriate
 - iv) Financial statements
Three significant risks were identified: Valuation of PPE, Pensions Liabilities and Faster Close. Recommendations were made and identified in the report.
 - v) Value for money arrangements
The Authority has "made proper arrangements to secure economy, efficiency and effectiveness in its use of resources" but still faces significant challenges and uncertainty going forward and Delivery of Budgets and Group Governance were identified as significant Value for Money Audit Risks. The auditors emphasised the need to look at any non-recurrent measures that have been taken to address recurrent problems and stressed the need to continue developing a framework to support an understanding of Group Governance arrangements by September.
 - vi) Exercising of audit powers
The auditors confirmed that they had not identified any matters that would require them to issue a public interest report.
- d) A minor breach of auditor independence requirements was identified in relation to Nottingham City Council's status as an EU Public Interest Entity (EU PIE). The auditors were not aware of this status when carrying out some work for Nottingham City Transport but the work would not have been approved if the EU PIE status had been known at the time because it breaches independence requirements as detailed in the additional letter circulated to the Committee at the meeting. The letter also outlined that although the independence requirements had been breached, in KPMG's view, the impact was minor and, in the auditor's professional judgement, they concluded that their objectivity has not been

compromised and KPMG continues to be independent of the Council and its controlled entities for the year ended 31 March 2018. The Strategic Director of Finance and Head of Audit and Risk confirmed that they supported the conclusions of the auditors.

During the discussion that followed the presentation, the following points were made:

- e) Due to the timetabling of the accounts, there had not been the opportunity to include responsible officers or implementation deadlines against the recommendations. These would be added and a revised version circulated to Committee members by the Head of Audit and Risk.
- f) The findings relating to Group organisations would be communicated to those organisations by the responsible officer.
- g) The head of Audit and Risk acknowledged that this would be the last opinion provided by KPMG due to a change in auditors and thanked KPMG for their invaluable support and guidance.

Sue Risdall, Financial Team Leader, Technical Accounting then presented Nottingham City Council's Statement of Accounts 2017/18 to the committee. During the presentation and the subsequent discussion the following points were highlighted:

- h) The version for consideration at this meeting was largely the same as that discussed at the Committee's June meeting subject to some minor wording changes regarding Council Plan achievements and to reflect changes in accounts.
- i) Changes to Portfolio responsibilities year on year make the reporting process more complicated in Nottingham. However the reporting process cannot be changed and therefore this obstacle has to be worked around. Financial Accounting work closely with colleague in the budget team to ensure the process is robust.

RESOLVED to:

- (1) approve the final Statement of Accounts and authorise the Chair of the Audit Committee to sign them on the Committee's behalf;**
- (2) approve the Draft Management Representation Letter for signature by the Chair of the Audit Committee**
- (3) delegate power to the Chair of the Audit Committee and the Strategic Director of Finance to approve any subsequent necessary amendments to the statement of accounts**
- (4) confirm that the committee concur with the KPMG's conclusion that their objectivity has not been compromised and KPMG continues to be independent of the Council and its controlled entities for the year ended 31 March 2018.**

19 ISA 260 REPORT AND SUPPORTING INFORMATION

This item was taken as part of the previous agenda item.

20 ANNUAL GOVERNANCE STATEMENT 2017/18

Shail Shah, Head of Audit and Risk, introduced the report informing the committee that this version was almost identical to that considered at the June meeting but that the committee was required to consider it alongside the Statement of Accounts. The document described the governance arrangements in place at the Council and confirms that while there are no significant issues raised, there are issues worth noting including East Midlands Shared Services, Fit for the Future, Balancing the Council's Budget and some of the Council's wholly owned companies.

Following questions and comments from the Committee, Shail Shah and Theresa Channell provided some additional information:

- a) The outturn figure of a £4.2m overspend is the same as the figure in the accounts for 2017/18,
- b) The Housing Revenue Account (HRA) has been included as an Issue Worth Noting due to the impact of Universal credit and government policy in relation to rent increases which will increase strain on the HRA.
- c) No new Issues Worth Noting were raised this year but those included have been updated to reflect what actions have been taken in the last year.
- d) Compiling the Statement involves a comprehensive process including questionnaires to companies, partners and key officers. Anything raised throughout the process is included, including any findings from Ofsted or other inspections and KPMG.

RESOLVED to approve the Annual Governance Statement 2017/18.

21 INTERNAL AUDIT CHARTER

Shail Shah, Head of Audit and Risk introduced the report explaining that the Charter is effectively the Terms of Reference for the operation of Internal Audit. It outlines the freedoms and powers of the Head of Internal Audit for example in relation to access to documents. Some minor updates have been made to the Charter since its last approval by the Committee.

RESOLVED to approve the Internal Audit Charter.

22 URGENT ITEM - LOCAL GOVERNMENT OMBUDSMAN REPORT ON AN EDUCATION AND CHILDREN'S SERVICES MATTER

In accordance with Section 100B (4) (b) of the Local Government Act 1972 the Chair of the Committee agreed that this item, although not on the agenda, could be considered as a matter of urgency in order to avoid any delay in the Council's response to the Ombudsman's recommendations.

Nick Lee, Head of Access and Learning, Jonny Kirk, Access to Learning Service Manager and Nancy Barnard, Governance Manager presented the report to the Committee, outlining the following key points.

- a) The Local Government and Social Care Ombudsman (LGO) has found fault with the Council's processes in relation to a school admission appeal and has published a report on its findings. When the LGO publishes a report, the authority is obliged to take the report to a meeting of Council or a Committee with delegated authority to consider such reports.
- b) The final report and its findings had been subject to substantial amendment by the LGO following concerns raised by colleagues in relation to the process followed during the investigation and the content of earlier versions.
- c) Throughout the investigatory process, the parent was offered alternative school places for the child but these were not accepted by the parent. The child is now finishing year six and will be starting secondary school in September.
- d) In complying with the LGO's recommendations colleagues will provide training to all appeals personnel and will offer a re-hearing to the parent. A plan in relation to these actions will be shared with members of the committee.
- e) Efforts have been made seeking to increase the diversity of the pool of voluntary independent Panel members. The Governance Manager will be meeting with Cllr Ayoola to identify any further possible actions that could be taken.

RESOLVED to agree that the relevant services should comply with the recommendations of the Local Government Ombudsman.