

# **NOTTINGHAM CITY COUNCIL**

## **AUDIT COMMITTEE**

### **MINUTES**

of meeting held on **25 NOVEMBER 2011** at

Loxley House from 10.30 am to 12.53 pm

- ✓ Councillor K Williams (Chair)
- ✓ Councillor Piper (Vice-Chair)
- ✓ Councillor Aslam
- ✓ Councillor Fox
- ✓ Councillor Hartshorne
- ✓ Councillor Heaton
- ✓ Councillor Molife
- ✓ Councillor Parton
- Councillor Steel

✓ indicates present at meeting

### **Also in attendance**

Paul Hutchings	- Audit Manager	) Audit Commission
Sue Sunderland	- District Auditor	)
Paul Wilkinson	- Business Manager	- Children and Families
Lynne North	- Customer Liaison Manager	- Communities
Theresa Channell	- Senior Finance Manager	)
Barry Dryden	- Senior Finance Manager	)
Pete Guest	- Treasury Manager	)
Duncan James	- Planning and Performance Manger	) Resources
Tony Kirkham	- Director of Strategic Finance	)
Mark Leavesley	- Constitutional Services Officer	)
Ian Roper	- Business Support Manager	)
Shail Shah	- Head of Internal Audit	)

### **22 APOLOGY FOR ABSENCE**

An apology for absence was received from Councillor Steel.

### **23 DECLARATIONS OF INTERESTS**

No declarations of interests were made.

### **24 MINUTES**

**RESOLVED** that the minutes of the last meeting held on 23 September 2011, copies of which had been circulated, be confirmed and signed by the Chair.

**25 DEPARTMENT FOR WORK AND PENSIONS (DWP) CONSULTATION ON OPTIONS FOR THE INCLUSION OF LOCAL AUTHORITY BENEFIT FRAUD INVESTIGATION TEAMS IN THE SINGLE FRAUD INVESTIGATION SERVICE**

Consideration was given to a report of the Deputy Chief Executive/Corporate Director for Resources, copies of which had been circulated.

Ian Roper, Business Support Manager, introduced the report and outlined the central government proposal to create a single fraud investigation service, which would combine staff from local authority housing and council tax benefit investigation teams, the DWP and HM Customs and Revenue, to investigate all fraud linked to the creation of payments incorporated into the new Universal Credit, commencing April 2013.

The following information was provided in response to questions from the Committee:

- as part of the response to the consultation (which ended on 14 October 2011), local authorities had queried how council tax and housing benefit could be linked to ensure comparable information was kept as, currently, they were separate entities;
- although not yet confirmed, it was likely that a new computer system would be required as, currently, the DWP and City Council systems were not compatible.

**RESOLVED that the current position and proposed timeline for creation of a single fraud investigation service, as detailed in the report, be noted.**

**26 CORPORATE INTEGRATED PLANNING AND PERFORMANCE FRAMEWORK (CIPPF) - REVIEW**

Further to minute 45 dated 23 October 2009, the Committee received a presentation by Duncan James, Operational Planning and Performance Manager, copies of which had been circulated, the purpose of which was to update the Committee on changes over the previous 18 months which had impacted on the CIPPF and to reconfirm the role of the Committee in relation to the CIPPF, focussed around critical appraisal, fitness for purpose and effectiveness.

The main points were as follows:

- the main changes since October 2009 were:
  - nationally, a different central Government, cessation of Comprehensive Area Assessments, National Indicators and Local Area Agreements, imminent closure of the Audit Commission, more local self regulation and an exceptionally challenging climate in terms of spending cuts, with an increasingly gloomy economic outlook;
  - locally, an election was held in May 2011, a new manifesto had been put in place, a refreshed Council Plan had been agreed at a meeting of Executive Board in November 2011 and potential new dimensions could be added to the planning framework with the Commercialisation Big Ticket;
- in relation to the 4 strands of the CIPPF (strategic planning, aligning plans and resources, performance monitoring and performance improvement) the role of the Committee was:

- strategic planning – to appraise whether the framework was effective, test whether the levels fitted together and ensure that governance and risk management arrangements were robust and effective;
- aligning plans and resources – to appraise whether robust arrangements were in place for integrating priorities and resource allocation and test whether systems ensured investment and savings decisions aligned with service priorities;
- performance monitoring – to assess and appraise whether performance reporting arrangements were fit for purpose and whether decisions were made on robust, timely information and take a view on whether arrangements for challenge were robust and, if not, bring about improvement;
- performance improvement – to agree a planned, coherent and relevant programme of audit activity, including evaluating the results of audits and ensuring robust arrangements were in place to implement and track improvements, evaluate arrangements already in place to ensure that improvement activity, interventions and improvement programmes were effectively joined-up and focussed on key areas which needed to be improved and evaluate the results of any potential Peer Challenge process.

**RESOLVED that the presentation be noted.**

## **27 TREASURY MANAGEMENT STRATEGY 2011/12: HALF YEARLY UPDATE**

Further to minute 49 dated 25 February 2011, consideration was given to a report of the Deputy Chief Executive/Corporate Director for Resources, copies of which had been circulated.

Pete Guest, Treasury Management, introduced the report, which highlighted the following:

- treasury management actions and performance during the period 1 April to 30 September 2011;
- a proposed amendment to the existing counterparty list, in relation to the Royal Bank of Scotland / Nat West Bank, Nationwide Building Society, Clydesdale Bank and Bank of Scotland / Lloyds TSB, as recommended by Executive Board on 22 November 2011 for approval by City Council at its meeting on 12 December 2011.

**RESOLVED that the following be noted:**

- (1) the treasury management actions and performance during the period 1 April to 30 September 2011;**
- (2) the proposed change to the approved investment counterparty list, recommended by Executive Board for approval by City Council at its meeting on 12 December 2011, as follows:**

**‘For UK banks, the following minimum criteria would apply:**

- **a short-term rating of F1 (Fitch), A-1 (S&P) or P-1 (Moody's) and a long-term rating of A+ (Fitch and S&P) or A1 (Moody's), with a maximum sum of £20m for a maximum period of investment of 6 months;**

- a short-term rating of F1 (Fitch), A-1 (S&P) or P-1 (Moody's) and a long-term rating of A- (Fitch and S&P) or A3 (Moody's), with a maximum sum of £20m for a maximum period of investment of 3 months;

For non-UK banks, the following minimum criteria would apply:

- a short-term rating of F1 (Fitch), A-1 (S&P) or P-1 (Moody's) and a long-term rating of A+ (Fitch and S&P) or A1 (Moody's), with a maximum sum of £5m for a maximum period of investment of 3 months.'

## **28 AUDIT COMMITTEE UPDATE**

Further to minute 52 dated 25 February 2011, consideration was given to a report of the District Auditor, Audit Commission, copies of which had been circulated, detailing progress to date on work undertaken by the Audit Commission, as the Council's external auditors, and informing the Committee of key emerging national issues.

Paul Hutchings, Audit Manager, Audit Commission, presented the report, the main points of which were as follows:

### **Work undertaken and planned**

**Financial statements** - audit report issued on 30 September 2011, gave an unqualified opinion on the Council's 2010/11 financial statements;

**Value For Money (VFM) Conclusion** - gave an unqualified VFM conclusion on 30 September 2011, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources for 2010/11;

**Certificates (2009/10 and 2010/11)** - issued audit certificates confirming completion of both audits;

**Annual Audit Letter 2010/11** – drafted, and discussed with the Deputy Chief Executive/Corporate Director for Resources in early November 2011, the Annual Audit Letter for 2010/11, with the intention of reporting the letter, following certification of completion of the 2010/11 audit, at the Audit Committee meeting scheduled for January 2012;

**Grant certification work** - the following claims and returns for 2010/11, having either a September or October 2011 deadline for audit, were certified ahead of the specified deadline:

- housing capital receipts return;
- Surestart return;
- housing finance base data return (for 2012/13);
- disabled facilities grant;
- NNDR return;
- teachers' pension return;

Work was on-going as planned for those claims and returns having November or December 2011 deadlines:

- housing and council tax benefits return (November);
- Housing Revenue Account subsidy return (December);
- school centred initial teacher training return (December).

## **Planned work**

### **Specific 'reasonable assurance' work**

Work planned (December 2011) on the Council's financial return to the Homes and Communities Agency, covering funding received for low carbon infrastructure work in the Nottingham Southside area. As this source of funding was not included in the Audit Commission grant certification framework, it was being carried out as 'advice and assistance' work instead.

### **Financial Statements (2011/12 audit)**

Key milestones for the 2011/12 audit were:

- detailed planning - November/December 2011;
- opinion audit plan - December 2011;
- systems audit - on-going (December 2011 to March 2012);
- accounts deadline - 30 June 2012;
- statements audit - July/August 2012;
- audit deadline - 30 September 2012.

### **Other**

The Audit Commission detailed planning included making formal enquiries of both management and the Audit Committee (as 'those charged with governance') about certain management processes and arrangements. Letters were sent in November to the Deputy Chief Executive/Corporate Director for Resources and the Audit Committee Chair, setting out enquiries.

The Audit Team continued to meet regularly with the Council's finance and Internal Audit teams, and recent audit related topics discussed included:

- 2010/11 financial statements audit debrief;
- the Council's proposed accounting treatment for cessation of existing NET and future NET concessions;
- Icelandic bank investments;
- the Council's progress in setting up shared human resource and financial processing services via East Midlands Shared Services (EMSS).

## **Other issues of Interest**

### **Update on the Audit Commission**

On 21 September 2011, the Audit Commission's Chief Executive wrote to all organisations to provide them with an update on the transfer of the work of the in-house Audit Practice to the private sector.

This transfer would be achieved by outsourcing the work through a procurement exercise and the contract notice was published in the Official Journal of the European Union on 7 September, and the timetable for the outsourcing process had now been published on the Audit Commission's website.

The key milestones were as follows:

- 16 December 2011 - deadline for submission of tenders;
- week commencing 20 February 2012 - approval of contract awards by the Audit Commission Board;
- 23 April to 13 July 2012 - consultation with audited bodies on auditor appointments for 2012/13;
- 1 September 2012 - appointments for 2012/13 commence;
- 31 October 2012 - Audit Practice staff transfer to firms awarded contracts.

Thirteen firms had recently completed the pre-qualification stage of the procurement exercise and had been formally invited to tender for the work.

### **Final accounts workshops**

As in previous years, the Audit Commission's Audit Practice would again be running a series of final accounts workshops for Local Government finance staff involved in preparing financial statements for 2011/12.

The workshops would be held in January and February 2012, with the aims being to help local government bodies achieve a smooth and trouble-free final accounts and audit process and to provide consistent messages to all local government bodies about the important issues affecting the completion of the financial statements' audit.

The workshops would focus on three themes:

- changes to the financial reporting framework for 2011/12;
- specific accounting issues relevant to local authorities for 2011/12;
- the audit implications of these changes and issues.

Audit Practice clients had access to two places at the events, although additional staff could be accommodated for a nominal fee. Further information would be sent to Directors of Finance of all relevant local government bodies but, in the meantime, contact Sue Sunderland, District Auditor, for further information if required.

### **2012/13 Work Programme and Audit Fees**

On 5 September 2011, the Audit Commission began consulting on the proposed work programme and scales of fees for 2012/13. Consultation was on a reduction of 10% from the published 2011/12 scale fees for principal bodies. This continued the programme, begun before the announcement of the abolition of the Audit Commission, to deliver cost cuts of £70 million (30%) over a three year period. There had not been any changes from 2011/12 in setting the proposed work programme for 2012/13, which would cover:

- financial statements audit;
- Value for Money conclusion (based on existing criteria specified by the Audit Commission in previous years);
- certification work;
- mandated work on whole of Government accounts (as previous years).

The consultation closed on Monday 24 October 2011, and the final work programme and scales of fees for 2012/13 would be published in April 2012, following the completion of the exercise to outsource the work of the in-house Audit Practice.

### **‘Fighting Fraud Together’**

In October 2011, 37 organisations joined forces to launch ‘Fighting Fraud Together’, a new strategy that aimed to reduce fraud, a crime estimated to cost the UK £38 billion every year. The organisations involved included the Department for Communities and Local Government, the NHS, the Charity Commission, HM Revenues and Customs and the Association of Chief Police Officers. It was the first time that government, industry, voluntary groups and law enforcement agencies had joined together on such a large scale to sign a joint commitment to tackle fraud. The strategy and its accompanying action plan placed a strong emphasis on preventing fraud through greater fraud awareness and self protection, combined with stronger government and industry prevention systems and controls.

Examples of the new initiatives included:

- preventing fraud - industry and the public sector would develop their intelligence sharing capabilities to prevent fraud attacks;
- increasing awareness and reporting - a new research tool would help all sectors provide more targeted prevention advice to the public, particularly vulnerable people, and develop a better understanding of small businesses’ vulnerability to fraud and the support they needed;
- a more effective enforcement response - greater intelligence capabilities of the National Fraud Intelligence Bureau would disrupt fraudsters’ activities and rapidly close down the channels through which they operated and laundered money.

**RESOLVED that the report be noted.**

### **29 GOVERNMENT RESPONSE TO COMMUNITIES AND LOCAL GOVERNMENT (CLG) SELECT COMMITTEE REPORT ON AUDIT AND INSPECTION**

Further to minute 5(2) dated 29 July 2011, consideration was given to a report of the Deputy Chief Executive/Corporate Director for Resources, copies of which had been circulated, updating Councillors on the latest position with regard to the abolition of the Audit Commission.

Shail Shah, Head of Internal Audit, presented the report and stated that the Government had recently published its response to the CLG Select Committee's report on audit and inspection, which provided an indication of the Government's position before they formally responded to the consultation. He informed the Committee that a briefing note, provided by the Local Government Information Unit, outlining the issues, was attached as Appendix 1 to the report and, in summary, the Select Committee’s position on issues directly affecting the Audit Committee was as follows:

- although the work of the Audit Commission was generally well respected, the Government was still of the opinion that its decision to abolish the Audit Commission was correct and will allow a refocus of local government audit work on local considerations and would yield cost savings;

- the Select Committee noted that “the legislation would have to provide clear and incontestable protections for assuring the independence of audit committees and auditors”, and the Government had reaffirmed its commitment to ensure that, under any future system of local public audit, auditor independence would remain;
- the Select Committee considered that audit committees must be chaired by an independent person of proven competence, should have a majority of independent members and that members of such committees should be remunerated;
- the Government still favoured a longer term move to individual local councils appointing their own external auditor, on the advice of an independent Audit Committee, with an independent and remunerated Chair and Vice Chair;
- in the short term, councils would retain their current audit arrangements for the audit of the 2011-12 accounts, and then move to an out-sourced audit provider, appointed by the Audit Commission, for 2012-13, and in the longer term, the Government would legislate for a move to a fully locally procured process.

**RESOLVED that the latest position, with regard to the abolition of the Audit Committee, be noted.**

### **30 BRIBERY ACT 2010 AND COUNTER FRAUD STRATEGY**

Consideration was given to a report of the Deputy Chief Executive/Corporate Director for Resources, copies of which had been circulated, informing Councillors of the implications of the Bribery Act 2010, which came into force on 1 July 2011, and, in light of the Act, seeking endorsement of the Council’s revised Counter Fraud Strategy (appendix 1), which included a Fraud Response Plan (appendix A) and Data Matching Strategy and Policy (appendix B).

Shail Shah, Head of Internal Audit, presented the report and stated that the Council had to put in place arrangements to demonstrate compliance with the Act and update its governance related policies and procedures accordingly.

#### **RESOLVED**

- (1) that the implications for the Council, arising from the Bribery Act 2010, as outlined in the report, be noted;**
- (2) that the revised Counter Fraud Strategy (appendix 1 to the report), including the new Fraud Response Plan and Data Matching Strategy and Policy (appendices A and B to the report respectively), be endorsed;**
- (3) that the Head of Internal Audit be requested to investigate development of a fraud monitoring system and report his findings to the next meeting of the Committee.**

### **31 INTERNAL AUDIT REPORTS SELECTED FOR INSPECTION**

Further to minute 11(2) dated 29 July 2011, consideration was given to a report of the Deputy Chief Executive/Corporate Director for Resources, copies of which had been circulated.



Paul Wilkinson, Business Manager, presented the report and stated that the Internal Audit reports focussed on the 15 Plus Team (appendix A) and Top Valley School and Engineering College (appendix B). The reviews were as follows:

- 15 Plus Team – to ensure compliance with Financial Regulations and statutory and best practice by reviewing provision of accommodation, petty cash usage and leaving care grants;
- Top Valley School and Engineering College (completed as part of the Audit Plan 2010/11) – to safeguard the assets and resources of the school by ensuring:
  - compliance with Financial Management Standards in Schools (FMSiS) (although these standards had now been scrapped by Michael Gove, Secretary of State for Education, with effect from 15 November 2010);
  - effective budgetary control;
  - reliability of financial records
  - that other financial and administrative procedures were operating effectively and in accordance with statutory requirements.

**RESOLVED that the audit work was of an appropriate quality and scope and the service response was sufficiently robust and prompt.**

## **32 OMBUDSMAN ANNUAL LETTER**

Consideration was given to a report of the Director of Neighbourhoods and Communities, copies of which were circulated, outlining the contents of the Local Government Ombudsman's (LGO) Annual Letter (appendix 1), which detailed the findings from enquiries/complaints dealt with on behalf of the Council during the period 1 April 2010 to 31 March 2011.

Lynne North, Customer Liaison Officer, presented the report, the main points of which were as follows:

- the Council had seen a significant reduction in the number of days taken to resolve complaints, falling by 3.7 days, which demonstrated that Nottingham City Council was responding more quickly to citizens who had used the LGO service;
- during the period, the Council received 60 less complaints on the previous year and, of the 62 complaints which were closed, 29 of them were adjudged 'no maladministration', where the LGO had found no, or insufficient, evidence of maladministration;
- the Council was currently undergoing a review of its access to services, which included the way it handled complaints corporately, and it was anticipated new developments on complaint handling would be in place by Spring 2012, enabling better tracking and communication surrounding complaints, and giving citizens of Nottingham and Council staff a better insight into the complaint resolving process.

**RESOLVED that the report and Ombudsman's Annual Letter be noted.**

### **33 INTERNAL AUDIT QUARTERLY REPORT 2011/12 – 2<sup>ND</sup> QUARTER**

Consideration was given to a report of the Deputy Chief Executive/Corporate Director for Resources, copies of which had been circulated, outlining the work undertaken by the Internal Audit Service during the 2<sup>nd</sup> quarter 2011/12, including the following, and requesting the Committee to select audits for examination at the February 2012 meeting:

- a summary of audit reports with high risk recommendations and level of assurance completed during the quarter (appendix 1);
- a list of final audit reports issued during the quarter, including an analysis of recommendations (appendix 2);
- an overview of the work completed to date against the updated Audit Plan (appendix 3);
- an analysis of outstanding recommendations for reports issued during the period 2009/10 to 30 September 2011 (appendix 4).

#### **RESOLVED**

**(1) that the following be noted:**

- (i) the performance of the Internal Audit Service, against the annual plan, in terms of the number of days and the balance and mix of the work;**
- (ii) the nature, scope and quality of the work undertaken;**
- (iii) that the performance indicator results were appropriate and the targets sufficiently stretching;**

**(2) that 'Self Directed Support' be selected for further discussion at the February 2012 meeting.**

### **34 DATE OF NEXT MEETING**

**RESOLVED that the next meeting be held at 10.30am on 6 January 2012, instead of on 30 December 2011 as previously agreed.**