

# Nottingham City Council

## Audit Committee

Minutes of the meeting held remotely via Zoom -  
<https://www.youtube.com/user/NottCityCouncil> on 25 September 2020 from  
10.02 am - 1.05 pm

### Membership

#### Present

Councillor Audra Wynter (Chair)  
Councillor Leslie Ayoola (Vice Chair)  
Councillor Graham Chapman  
Councillor Michael Edwards  
Councillor Jay Hayes  
Councillor Jane Lakey  
Councillor Sajid Mohammed  
Councillor Anne Peach  
Councillor Andrew Rule

#### Absent

### Colleagues, partners and others in attendance:

Councillor David Mellen	-	Leader of the Council (minute 38 only)
Mel Barrett	-	Chief Executive (minute 38 only)
Helen Lillington	-	Grant Thornton External Auditors
Lucy Littlefair	-	Head of EMSS (minute 42 only)
Dominic Omelia	-	Customer Experience Manager (minute 37 only)
Laura Pattman	-	Strategic Director of Finance
Sue Risdall	-	Team Leader, Technical Finance
Shail Shah	-	Head of Audit and Risk
John Slater	-	Group Auditor
Kate Morris	-	Governance Officer

### 26 Change in Membership

The Committee noted that Councillors Steve Battlemuch and Lauren O'Grady have been replaced by Councillors Jay Hayes and Sajid Mohammed as members of the Committee.

### 27 Appointment of Chair

**Resolved to appoint Councillor Audra Wynter as Chair of this Committee for the remainder of this municipal year (to April 2021)**

### 28 Appointment of Vice Chair

The Chair of the Committee agreed that this item, although not on the agenda, could be considered as a matter of urgency in accordance with Section 100B(4)(b) of the Local Government Act 1972, to ensure compliance with Nottingham City Council's constitution.

**Resolved to appoint Councillor Lesley Ayoola as Vice-Chair of this Committee for the remainder of this municipal year (to April 2021)**

## **29 Apologies**

John Gregory – External Auditor, Grant Thornton.

## **30 Declaration Of Interests**

Councillors declared the following Other Interests

Councillor Audra Wynter – Board member of Nottingham City Transport and Nottingham City Homes.

Councillor Andrew Rule – Trustee of the Bridges Trust

Councillor Graham Chapman – Board Member of Nottingham City Transport, and member of the Nottinghamshire Pensions Committee (Non-Voting rights)

Councillor Michael Edwards – Board Member of EnviroEnergy

Councillor Anne Peach – Board member of Nottingham Ice Arena and Nottingham Play House and member of the Nottinghamshire Pensions Committee (Non-Voting rights)

Councillor Jay Hayes – Member of Nottingham Education Trust Board

Councillor Sajid Mohammed – Chair of the Bridges Trust

## **31 Minutes**

With the alteration of Nottingham Pensions Board to Nottinghamshire Pensions Committee in minute 13, Declarations of Interests, the minutes of the meeting held on 31 July 2020 were confirmed as true record and were signed by the Chair.

## **32 Draft Statement of Accounts 2019/20**

Theresa Channell, Head of Strategic Finance and Deputy Section 151 Officer, gave a verbal update on the Draft Statement of Accounts 2019/20, published online <https://www.nottinghaminsight.org.uk/f/aAXD5ex>. The final Statement of Accounts 2019/20 will be brought to the November Audit Committee for approval and full training will be given to Committee members prior to that meeting. Theresa referred members of the Committee to further reports they may wish to review, the Draft Outturn Report 19/20 approved by Executive Board on 29 June 2020, the Interim Budget report discussed at Executive Board on 22 September 2020. During discussions the following points were highlighted:

- (a) Nottingham City Council has £1.1billion debt, which is backed by £2.9billion assets. The Council is governed by the prudential code and borrows in accordance with the Treasury Management Strategy and the Capital and Investment Strategy – both published with the Medium Term Financial Plan. Work is taking place to refresh these documents in light of the impacts of Covid;

- (b) Much of the Council's debt also comes with funding, such as council housing debt and Private Finance Initiatives (PFI). The Council receives Government funding for the debt from these schemes. The Council is not allowed to borrow for revenue debt and can only borrow against capital and assets;
- (c) Un-earmarked reserves stands at £10million. £1.2million of this will be used to support the in-year balance, this is detailed in the Interim Budget report. As part of the Medium Term Financial Plan this will be replenished;
- (d) Aspects of the 18/19 draft accounts are still awaiting full sign off from the external auditors. The financial accounts and audit of Robin Hood Energy for 18/19 have now been concluded and final checks are taking place. Sign off has been impacted but this should now take place with in next few weeks;
- (e) The deadline for the audit of 19/20 accounts has been extended to the end of November 2020. The 19/20 statements have been received from Robin Hood Energy and these are included in the draft statement of accounts. The audit of these accounts has not yet been concluded, but this is the case for all group accounts;
- (f) There is a national issue in terms of the value of the assets as a result of the Covid 19 pandemic. This will not affect the Housing Revenue account properties but investment property valuation may well be impacted. This will not be unique to Nottingham City Council;
- (g) The cost of servicing this debt is £54million.

The Committee noted the verbal update provided.

### **33 External Audit Reports**

In a change to the order of the published agenda the Committee agreed to take item 8 External reports as the next item.

In the absence of John Gregory, Shail Shah, Head of Audit and Risk, and Helen Lillington, Grant Thornton, updated the Committee on the progress of the work of the External Auditors. The following information was highlighted:

- (a) The 18/19 audit and the Value for Money conclusion are still outstanding, however the final risk management checks are being progressed;
- (b) The 19/20 Audit is well underway with audit staff "onsite" virtually. A progress report on the 19/20 Audit and the conclusions for the 18/19 Audit will be presented to the November Audit Committee.

The Committee noted the verbal update provided.

### **34 Audit Committee Annual Report 2019/2020**

In a change to the order of the published agenda the Committee agreed to take item 10, Audit Committee Annual Report 2019/2020 as the next item.

Councillor Audra Wynter introduced the Audit Committee Annual Report 2019/20. She signposted members of the Committee to page 159 of the published agenda pack, which summarises the work of the Committee and to Appendix A detailing the work programme. She detailed the desire to focus on a risk-focused approach to the work programme and a desire to raise the prominence of the work of the Committee within the Council. The following points were highlighted during discussion:

- (a) As part of a review into how the Audit Committee works, there is a question of independence as set out in the Redmond Report. Committee members suggested that the Corporate Governance assessment could be independent. This would need to be in line with guidance and the Council would still have to gather the evidence;
- (b) In order to manage the work programme and the length of meetings and ensure that proper time and consideration is given to reports before the Committee it would be beneficial to create working groups to look at specific areas;
- (c) An action log, capturing recommendations and ensuring they are being acted on will help to focus the work of the committee;
- (d) Councillors within the Committee will be receiving an annual training programme to ensure that they are able to consider the items before the Committee thoroughly;
- (e) Training is needed for all councillors so that recommendations made on risk and financial implications are understood by all Councillors, not just Audit Committee members. The issue of training is being picked up by the Overview and Scrutiny Committee as part of the work on the Report in the Public Interest;

**Resolved to:**

- (1) Note the work undertaken and approve the report published with the agenda at Appendix 1; and**
- (2) To revert to meeting at 10.30am going forward.**

**35 Internal Audit Annual Report 2019/20**

In a change to the order of the published agenda the Committee agreed to take item 11, Internal Audit Annual Report 2019/20 as the next item.

Shail Shah, Head of Internal Audit and Risk presented the report outlining the work of Internal Audit team to the Committee. The document presented had the Counter Fraud strategy and Whistleblowing Policy appended in addition to the Audit Charter. He informed the Committee that the Internal Audit team fully comply with the Public Sector Audit Standards, and met all performance indicators. During discussion, the following points were highlighted:

- (a) The Counter Fraud team have been very successful in recovering debt from fraud. There has been a small expenditure, but this has led to success in identification of income. Further work needs to be progressed to maximise debt recovery through this team;

- (b) Within the Whistleblowing Policy the Committee welcomed the options for individuals to go outside the system if the internal systems do not respond. They questioned whether there was any part of the policy that placed an obligation on staff to report issues if they came across them, there is no specific mention of an obligation to report. This will be followed up with the code of conduct for employees. All colleagues and Councillors have a duty to act in the best interests of the Council;

**Resolved to**

**(1) Add the following items to the newly established action plan:**

- **Set up a working group to look at increasing income by reducing fraud.**
- **To update the whistleblowing policy to install an obligation to report.**
- **Set up a working group to look at the Capital Programme;**

**(2) Note the following as detailed in Appendix 1 of the published report:**

- **The audit work completed during the year including the use of other sources of assurance and reliance upon those other sources**
- **The Head of Audit and Risk's annual opinion**
- **The proposed Audit Plan for 2020/21**

**(3) Approve the internal Audit Charter in Appendix 2 of the published report;**

**(4) Note the Counter Fraud Strategy in Appendix 3 of the published report;  
and**

**(5) Note the Whistleblowing Policy in Appendix 4 of the published report.**

**36 Work Programme**

In a change to the order of the published agenda the Committee agreed to take item 13, Work Programme, as the next item.

Shail Shah, Head of Audit and Risk introduced the work programme to the Committee. The work programme will need to be updated, to include the work of newly established work groups. The following points were also highlighted during discussion:

- (a) There are training sessions planned for Committee members around a number of different subjects including Risk and the Statement of Accounts and Treasury Management;
- (b) The work programme as it currently stands is highly likely to change as a result of the recommendations made by the Annual Governance Statement and the Public interest report;
- (c) An update on Brexit will be coming to the Committee in the new year, the Emergency Planning team feel it is most appropriate for the February 2021 meeting;

- (d) There will also be an item on culture. This item will be linked with work on the public interest report and an update will be provided.

The Chair confirmed that she would meet with the Head of Audit and Risk to create a work programme to include time scales and tracking of actions from the AGS and the PIR. The Committee will need to look at how to manage that going forward.

### **37 Customer Experience/Complaints and Ombudsman Annual Assurance 2020**

In a change to the order of the published agenda the Committee agreed to take item 12, Customer Experience / Complaints and Ombudsman Annual Assurance 2020 as the next item.

Dominic Omelia, Customer Experience Manager introduced the report on complaints received by the Authority. He informed the Committee that of the 5,116 complaints received over the last year the vast majority were dealt with by the Authority. Of those referred to the Local Government Ombudsman, 19 in total, 12 were upheld. This is 0.02% of the total number of complaints received. During discussion, the following points were highlighted:

- (a) Most complaints are based around waste, this does not include fly tipping. Single missed bin collections are not included in this number either, however repeated missed bin collections are. Work is ongoing to establish if there are problem streets (difficult to access due to parking issues) or issues around recycling contamination that will result in refusal to collect the bins. Where this is the case there is a focus on educating the public to ensure that waste is put into the correct bins;
- (b) Protected characteristic information, such as ethnicity or disability, is not routinely recorded by the complaints system for individual complainants. Where a complaint raises an issue or question around equality, an Equality Impact Assessment is completed.

### **Resolved to note the contents of the report**

The meeting was adjourned at 11:03am to allow Councillor David Mellen to join the meeting to present the subsequent item, and reconvened at 11.12am.

### **38 Public Interest Report**

In a change to the order of the published agenda the committee agreed to take item 9, Public Interest Report as the next item.

Councillor David Mellen, Leader of the Council presented the report detailing the findings of the External Auditor's report in the Public Interest and the Action Plan created by Nottingham City Council to address the recommendations made. He gave a presentation outlining the findings, recommendations and action plan:

- (a) The role of the Audit Committee in monitoring of the response of this report and the action plan that has been developed in response will be an important one;

- (b) The Report in the Public Interest focused on the governance of Robin Hood Energy and highlighted the following points:
- Governance arrangements were not strong enough and there were inadequacies in holding the company to account.
  - A lack of clarity on roles in governance.
  - An insufficient understanding of risk, and financial position of the company and expertise to recognise it on the Board.
  - An inappropriate balance between holding the company to account and allowing it freedom to operate commercially.
  - The Council needs to learn from this experience, not just in relation to Robin Hood Energy, but the overall governance of companies and the Council its self needs to be renewed.
  - Challenge and check should not be viewed as a negative, but should be welcomed as healthy and enabling a greater awareness and understanding of risk.
- (c) There are 13 recommendations made within the report, these are summarised below:
- Review the position of Councillors as Board members, and ensure a full understanding of the role of and legal requirements for Board members.
  - Urgently determine the future of RHE, taking into account the current financial position of the Council.
  - Ensure that the Board (both councillors and non Councillor members) have the experience and knowledge to challenge the management, particularly when operating in a specialised sector.
  - Ensure Councillors are provided with the sufficient and appropriate training that is updated regularly.
  - Ensure good definition of roles within the governance structure and ensure that people understand their roles.
  - Scope for conflict of interest is minimised and that there is a clear divide between people in roles of Board members and those who have the responsibility for holding them to account.
  - Risks from companies are included in the overall risk management process for the Council.
  - Consider the appropriateness of the definition of the shareholder role to ensure the Council's financial interests are protected.
  - The Companies Governance Sub Committee (CGSC) continues to meet with companies and that financial information is provided and understood by members and others involved with holding companies to account. If this information is not provided that robust action, with oversight of the s151 officer is taken.
  - Responsibilities for scrutiny and risk are given sufficient prominence, including giving Audit Committee explicit responsibility for scrutiny of governance and risk management.
  - Learn lessons from RHE and undertake a further review of company governance arrangements in particular, to ensure that risks are appropriately flagged and managed and implementation of the more robust monitoring agreed by CGSC.
- (d) The Report in the Public Interest was discussed at the Council meeting on 27<sup>th</sup> August 2020. An Action Plan was agreed at this meeting and the Council's response to the report was published;

- (e) The Leader of the Council has met with the Chairs and chief officers of all of the Council's companies. Part of the specialist training required for board members can only be done by those companies and so early engagement has been important to start to set this in motion;
- (f) The Leader has met with the Chairs of both Audit Committee and Overview and Scrutiny Committee to discuss the roles these Committees will have in the implementation of the action plan;
- (g) The action plan covers the thirteen recommendations made by the report and includes three additional actions added by the Council:
- Conclude the strategic Review of RHE and produce a report on the lessons learned.
  - Commit to learn from best practice from partners, and other successful council owned companies and national bodies.
  - Review of the use of Councillors on boards.
  - Ensure training is provided so that board members have sufficient knowledge and experience to challenge management.
  - Seek external advice on best practice models of Council ownership of companies. There will be an oversight Committee/Board that will oversee the Governance improvements with external members.
  - Ensure risks related to companies are considered within the Council's risk management process.
  - Review current training for board members ensure all board members, councillor or non-councillor, have refresher basic training, specialist training where necessary and regular refresher training as regulations change.
  - Review the scheme of delegation in place within the Council to ensure effective governance.
  - Review the roles of Executive Board, CGSC, Overview and Scrutiny and Audit Committees to ensure clarity and accountability, the Chairs will be fully involved in the review.
  - Review the appointment process of Councillors onto company boards
  - Refine the high level Risk Register to include company risks and review regularity of reporting to Audit Committee, Overview and Scrutiny Committee and Executive Board.
  - Review the wider governance arrangements within the Council taking advice from the LGA and other external bodies.
  - Refresh the Medium Term financial strategy.

Committee members asked a number of questions and the following additional information was highlighted during discussion:

- (h) Challenge needs to be seen as healthy, this will require a cultural change. There have been elements of how business is completed that can discourage that check and challenge.
- (i) It is necessary for Councillors to recognise the transition from political candidate to a Councillor serving the City. There is a balance to be struck between being a political person and being responsible for the council. More training on this point will be necessary;

- (j) The Leader of the Council has met with the leaders of the two opposition parties and has taken on suggestions around strengthening the action plan;
- (k) Within the report and action plan there is a lot of emphasis on Councillor culture, there needs to be equal emphasis on Officer culture too. Officer culture did at times appear to block action which is not highlighted within the report;
- (l) It is essential that Officers are able to perform their statutory roles. Both the s151 Officer and the Monitoring Officer fulfilled their statutory powers under very difficult circumstances. Moving forward work will need to focus on ensuring that all individuals, Councillor and Officers carry out their duties within these company arrangements;
- (m) If external members are appointed to a Board to provide specialist knowledge within a field, they need to be able to challenge the management without concerns about losing their position if they raise difficult issues. External members also need to be able to adjust to Local Government culture and finance, they will also require training. Both independent members and Councillor members of a board need to have a remit to challenge and actively participate in the business of the Board and the governance of the company;
- (n) Share holder meetings are essential, the CGSC needs to ensure that the meetings are held and are properly conducted with standard reporting and formal minutes. The issue of Share holder representatives need to be resolved to allow officers enough time to fulfil their duties as Shareholder Representative;
- (o) There is a lot of work to do and actions have been identified with deadlines, some of which are very short. Capacity has to be found to progress the actions. There is a need for pace to the response the Council provides to ensure that other companies are run appropriately and Councillors are supported in their roles;
- (p) Value for money is key, consideration will be given to the suggestion that a Value for Money statement should be required when contracts are awarded to Council owned companies without a tender process first taking place;
- (q) Chairs of companies do not need to have specific legal or accountancy qualifications. Chairs across the council owned companies have various strength, regardless of their formal qualifications. Technical and sectoral experience is also important as is the ability of the Chair to develop a positive culture of challenge within the Board;
- (r) The strategic review of Robin Hood Energy is not yet completed. The recommendation in the report to determine the future of the company has been completed. The customers will be sold to other companies and this process is underway. There is ongoing consultation with the staff group, and there are legal and other arrangements to be completed, which should be completed by the end of the year or soon after that. There are regular update reports to the Robin Hood Energy Steering group;

- (s) The use of Gateway and Phase reviews on Capital projects can be looked at and ensure that their use is in place and consider whether Audit Committee should receive a schedule of reviews. The programmes that are being taken forward are being regularly monitored. Again culture and integrity of the review structure is important to ensure that outcome is not dictated prior to the review happening;
- (t) Independent members of governing bodies and company boards need to add value, not just through their experience. There were periods of time when there were no experts on the RHE board and since the employment of an industry expert the Board has had more confidence to navigate the difficult phase in a better ways than without that expertise;
- (u) The culture within an organisation is driven by leadership. Leadership needs to drive the change in the culture going forward and councillors and officers need to consider how change can best be driven.

The Chair thanked Councillor Mellen for his attendance and the Committee noted the presentation and points made in the discussion that followed it.

### **39 Draft Annual Governance Statement 2019/20**

In a change to the order of the published agenda the committee agreed to take item 7, Draft Annual Governance Statement 2019/20 as the next item.

Shail Shah, Head of Audit and Risk introduced the Draft Annual Governance Statement for 2019/20 to the Committee. He advised them that the draft version had been published alongside the Draft Statement of Accounts for 2019/20 towards the end of August 2020. The following information was highlighted:

- (a) The draft document will very likely require changes as more information is received and will come back to this Committee in its final form along with the final Statement of Accounts in due course. The draft Statement is still subject to External Audit as are the draft Accounts;
- (b) Some alterations to the report and the structure have been made taking into account comments previously made by this Committee, timeline columns have been added to the action plan, for example;
- (c) The report outlines the significant issues faced by the Council, these include the Report in the Public Interest, financial implications of the Covid 19 pandemic, RHE, the Capital programme, financial resilience, OFSTED inspection, protecting people from Covid, energy and waste infrastructure and the Broadmarsh project;
- (d) Comments or suggestions made by the Committee at this time can be incorporated into the final Annual Governance Statement. Officers have provided updated information that has fed into this Statement too;

Committee members asked a number of questions and the following information was highlighted as a result of discussion:

- (e) The action plan indicates end dates of March 2022 for the Report in the Public Interest. Progress reports may be beneficial on the individual elements of the action plan. This Committee will be tracking the progress of implementation of the Action plans. It will become a standing item at Audit Committee and the Programme Manager will report at each meeting in order to assure that Committee that the outcomes are not only progressing in line with the recommendations but that actions are leading to the right outcomes;
- (f) Clear acknowledgement of ambition to have phase reviews on the Capital Programme element is needed. Strong points were made in the previous item around the culture of the phase reviews and the action plan should be more specific. This can further be considered by one of the proposed working groups;
- (g) Some of the items on the action plan are referred to as “continuing to”, or with “ongoing” timelines, these are either actions that are taking place as normal business, or should be updated on the action plan with additional information. The timelines and actions within the plan are not only for this Committee to act on but also for other Council committees and Council structures. It is necessary for this Committee to receive the updates at appropriate times;
- (h) A statement is needed clarifying what is meant by the completion of the strategic review into Robin Hood Energy as opposed to the completion of the company business and whether the October 2020 end date is appropriate. Clarification will be sought and the final statement updated;
- (i) It is important to keep on top of all of the risks facing the City Council. One of these is the impact of the Covid 19 pandemic and how it will specifically impact Nottingham City Council’s budget. One area of concern is Public Transport, which has been kept open but used far less. There are financial implications to this and more information is needed in the final statement on this area. Nottingham City Council has been working with both the Tram and the Bus companies. The government has provided assistance throughout the crisis, however it is unclear when this support will come to an end and how the future “new normal” will look for these companies. The Nottingham Ice Centre and Royal Centre were also mentioned as being significantly affected. Work to mitigate and understand these risks is underway;
- (j) The Children’s Improvement programme and the financial implications of improving Children’s Services is also a risk. Extensive modelling work is being undertaken to understand the impact of external factors and of Covid. Although the children in care numbers have increased slightly, the unit cost of provision has increased substantially and a programme of work has commenced to mitigate that additional financial strain;
- (k) The Overview and Scrutiny Committee are looking at the impact of Covid 19 on BAME communities, and disabled colleagues and citizens and those with protected characteristic in light of the Local Outbreak Control Plan;
- (l) There were suggestions from the Committee on presentation of risk information that can be taken away and used to update the statement. All action points in the action plan should reference the outlined major risks;

The Chair and the Head of Audit and Risk will meet outside the Committee to ensure that there is an appropriate reporting pathway in place to pull together updates from the Governance Statement Action Plan, Work Programme and the Public Interest Report Action plan and that the information is fed back to the Committee.

Councillor Michael Edwards proposed an additional recommendation around the need for a coversheet detailing observations made and whether the AGS had been updated as a result of that observation. This proposal was seconded by Councillor Andrew Rule and was carried by the committee.

**Resolved to:**

- (1) Require a coversheet for the next edition of the Annual Governance Statement presented to the Audit Committee that acknowledges every observation and suggestion made at the September Audit Committee and reports whether the Annual Governance Statement has been changed as a result of each observation; and**
- (2) Note the Draft Annual Governance Statement 2019/20 set out in Appendix 1 of the published report.**

**40 Exclusion of the Public**

The Committee decided to exclude the public from the meeting during consideration of the remaining agenda items in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, as defined in Paragraph(s) 3 of Part 1 of Schedule 12A to the Act.

**41 Exempt Minutes**

With the alteration referred to in minute 31 changing Nottingham Pensions Board to Nottinghamshire Pensions Committee exempt minutes of the meeting held on 31 July 2020 were confirmed as true record and were signed by the Chair

**42 East Midlands Shared Services Annual Report 2019/20**

The Committee discussed the content of the exempt report as detailed in the exempt minutes and noted its content.