

Nottingham City Council Audit Committee

Minutes of the meeting held remotely via Zoom and live-streamed on YouTube on Friday 27 November 2020 from 10:32am to 12:46pm

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

None

Colleagues, partners and others in attendance:

Mel Barrett - Chief Executive
Theresa Channell - Head of Strategic Finance
Glyn Daykin - Senior Accountant Treasury Management
John Gregory - Grant Thornton External Auditors
Clive Heaphy - Interim Director of Strategic Finance
Sue Risdall - Team Leader, Technical Finance
Shail Shah - Head of Audit and Risk
John Slater - Group Auditor
Kate Morris - Governance Officer

43 Apologies

None.

44 Declarations of Interest

None.

45 Minutes

The minutes of the meeting held on 25 September 2020 were confirmed as a true record and were signed by the Chair.

46 Work Programme and Action Log

Shail Shar, Head of Audit and Risk, introduced the Work Programme and Action Log to the Audit Committee. He informed the Committee that the work plan was being constantly adjusted in consultation with the Chair to ensure all aspects of work were covered.

Committee Members asked that the item on Brexit be brought forward to an additional meeting in December and that the Ethics and Culture item that was previously on the work plan be reinstated.

The Committee noted the Work Plan and the Action Log.

47 Ministry of Housing, Communities and Local Government Rapid Non Statutory Review of Nottingham City Council

Mel Barrett, Chief Executive, introduced the report giving a brief update on the Ministry of Housing, Communities and Local Government (MHCLG) rapid non-statutory review of Nottingham City Council. He highlighted the following points:

- (a) The review has been underway for about a month and a report is due to be issued the week commencing 30 November 2020. It was commissioned by the Secretary of State for Housing, Communities and Local Government following the recent Report in the Public Interest by the Council's external auditor Grant Thornton, and has been looking at the governance and decision making of the Council, as well as the Council's financial stability and its capacity to improve. Max Caller CBE was appointed as the Lead Reviewer alongside 2 Assistant Reviewers;
- (b) There are a number of different potential outcomes to the review, but once the report has been published it will be circulated to all members of the Council and a report in the outcomes can come back to a future meeting of this Committee.

During discussion and questions, the following points were made:

- (c) The Council will need to be aware that the skills needed by a company director are often those that also make a good Audit Committee member. The separating out of those two roles may be difficult due to the small pool of people with that particular skill set may be difficult or detrimental;
- (d) Concerns around Councillor control of businesses will not be solved by bringing them in-house. One case where this may be beneficial has been identified. A better understanding of conflict of interests when they arise may be a better solution.

The committee noted the report and information on the MHCLG rapid non-statutory review and that a report with the outcome will come to a future meeting of this Committee.

48 Report in the Public Interest and Action Plan - Update

Beth Brown, Head of Legal and Governance, introduced the report updating the Committee on work undertaken to date on the action plan resulting from the Public Interest report. The following points were highlighted during discussion of this item:

- (a) Over half of the 62 actions identified were due for completion by the end of November and the work is on track to meet these deadlines. There is no slippage in the work programme to report;
- (b) Additional actions completed include the establishment of a Programme Delivery Board to implement the actions, establishment of the Governance Improvement Board with independent members, lead officers identified and work streams established, 11 actions have been signed off and a best practice library has been created;
- (c) A report on the review of composition of company boards will be brought to the December meeting of the Audit Committee in time for it to go to Council in January 2021 in line with the action plan;
- (d) Training needs to equip Councillors to fulfil their role. Existing training programmes are being enhanced with some additional subjects becoming compulsory. The Council is also working with external bodies to develop training further;
- (e) The report puts a lot of emphasis on the Member role and training and does not put so much emphasis on the Officer role or Officer training. Culture within Officers will not be addressed by Member training and processes. There has been a substantial change in culture in recent months but it is essential that the risk of returning to the previous culture is understood and mitigated through training;
- (f) Officer training is being addressed along with other improving other processes such as decision making and report writing;
- (g) Culture is important. It is necessary keep separate the role of the Officers flagging issues and situations where internal controls are beginning to fail and the role of Councillors in ensuring proper monitoring is taking place and to put focus on those situations that require it, ensuring actions are set in train where appropriate;
- (h) Within the PIR the process issues are easier to evidence and make specific recommendation around. Evidencing culture issues and establishing their cause is far more difficult. It is the hope of the External Auditor that the MHCLG review will support and widen out the debate around cultural issues across the Council.

Resolved to note the work undertaken to date and progress towards implementation of the action plan.

49 External Audit Update

John Gregory, External Auditor, gave a verbal update on the progress of the external audit processes. The highlighted the following points:

- (a) The final opinion on the 18/19 Accounts is still outstanding. As a result of Covid 19 pandemic and the increased risk it presents to all businesses and

organisations more work is required which is the cause of the delay. The findings of the Audit as presented to this committee previously have not changed;

- (b) The 18/19 Value for Money conclusion is still outstanding and external auditors are currently awaiting the outcome of the MHCLG review to be completed and the report made public before finalising the conclusion;
- (c) The deadline for opinion on the 19/20 accounts has been pushed back to 30 November 2020, but will not be met in particular due to the impact of Covid-19 on the Council's group companies. There are two companies where their auditors opinion has not yet been submitted. Grant Thornton are in communication with these auditors to obtain their opinions. A meeting has been held with Max Caller concerning the MHCLG review's view of the financial position for 20/21 and sustainability going forward.

During comments and questions from the committee, the following additional points were made:

- (d) In a normal year the late publication of accounts would be concerning as it is a statutory deadline, however this year, as a result of the Covid pandemic, it is likely that many local authorities will miss this deadline. However Nottingham City Council will be able to publish the accounts with a clarification note indicating the opinion of the Auditor is still required. There will be no direct implications for the Council. The main issue causing delay is the complexity of the Council's situation;
- (e) The outstanding accounts are from Robin Hood Energy and EnviroEnergy, finance officers are working with their auditors;
- (f) The Value for Money opinion will be coming to the January 2021 Audit Committee.

The committee noted the content of the update from the External Auditor.

50 Companies Financial Governance Framework

Bipon Bhakri, Head of Finance – Commercial & Projects gave a presentation to the Committee on the Companies Financial Governance Framework outlining the risk management work around group companies. He highlighted the following points:

- (a) The governance framework is monitored through the Companies Governance Sub Committee (CGSC) and consists of three strands:
 - Financial Management
 - Business Management
 - Risk Management
- (b) In terms of Financial Management, each month the group companies submit a report on their financial position to the CGSC, these reports include information on profitability, cash balances and any variances identified. The companies also report their Medium Term Financial plans (MTFP) to the Sub

Committee and the implications this has for the Council are assessed. There will also be financial management training available to the committee members;

- (c) The second area, business management, includes the development of a group business strategy and business performance;
- (d) There are shareholder representatives who attend on a quarterly basis to provide a report on the business position and governance and business performance to assure the council around protection of its investment and maximisation of returns;
- (e) Each company also provides the Sub Committee with business strategies, future plans and trading prospects alongside financial information;
- (f) Risk management at the Sub Committee includes a combined risk register, with items drawn from each company's individual risk register to obtain a group position, a group risk plan detailing parameters within which the companies are operating and how risk is managed, alongside specific training around risk management;
- (g) The Company Risk review process has a number of steps, initially the Company Board reviews and sign off their own key risks. There are regular meetings between the Council and Companies around identified risks and performance. This is then fed into an internal meeting with the finance and risk colleagues to establish how these risks impact on the Council and the Council's risk via the Finance Risk register;
- (h) The Strategic Finance Director reviews these risks to decide if there is any need to escalate them and what they mean to the Council's risk and financial position. These risks are finally presented to the CGSC in the monthly review, actions are identified and reported back to the companies to mitigate or manage the risk;
- (i) The 9 Group companies all have their own independent external auditors. Key lines of work considered during the Audits are:
 - Impact of Covid 19 and the material uncertainty of the business environment
 - Going concern
 - Internal control frameworks, and
 - Management override
- (j) The auditors findings are presented to the company as part of the end of year accounts process board and any material issues are for that board to follow up. They are then fed into the CGSC to ensure that a suitable work programme for the Sub Committee is in place encompassing appropriate support.

During discussion and questions the following points were raised:

- (k) The structure presented would benefit from Shareholder meetings, and strategic joint working that allow strategic issues to be discussed with the Council's lead officer, Company and relevant Portfolio Holder present and ensure shared aims are being delivered. The Sub Committee is not the appropriate place for those discussions and a shareholder meeting with the company would allow that work to happen. This mechanism would also ensure that the Shareholder report to the CGSC contained a full picture;
- (l) A Committee member raised concerns around the difficulty in embedding risk management into the ways of working and regular reporting. Finance and Risk reporting/management sit together and should work together to feed into monthly reporting;
- (m) The Director of Strategic Finance will expect to see a shareholder report supported by analysis of key risks, any potential for company distress will then be visible enabling action. Once the framework is embedded information will be fed into the CGSC which will allow the Council to identify if a company is entering a distressed state. This can then be used to make members aware and action to be taken. It will take a little time for this to become a systematic approach but will benefit companies and the Council.

Resolved to:

- (1) Note the use of the Companies Financial Governance Framework to support its risk management of the group companies; and**
- (2) Note the Group Risk Register and its connection to the City Council Finance Risk Register.**

51 Audit Committee Working Groups

Shail Shah, Head of Audit and Risk, introduced the report on establishing working groups of the Audit Committee. He emphasised that these would be informal working groups, and would not perform any part of the statutory work of the Audit Committee.

As these are informal working groups relevant officers will be invited to attend and contribute.

Finalised terms of reference for each working group to include frequency and scope will come back to a future Audit committee to be noted.

Resolved to establish the following working groups and membership:

- **Capital and Commercial:**
 - **Cllr Leslie Ayoola**
 - **Cllr Graham Chapman**
 - **Cllr Jane Lakey**
 - **Cllr Andrew Rule**
 - **Cllr Audra Wynter**
 - **Cllr Michael Edwards**

- **Anti-fraud, anti-bribery, and anti-corruption:**
 - Cllr Graham Chapman
 - Cllr Jay Hayes
 - Cllr Andrew Rule
 - Cllr Audra Wynter

- **Risk and Assurance**
 - Cllr Graham Chapman
 - Cllr Michael Edwards
 - Cllr Sajid Mohammed
 - Cllr Audra Wynter
 - Cllr Anne Peach

52 Additional Meeting Date

Resolved to meeting on the following additional dates at 10.30am:

18 December 2020

29 January 2021

53 Exclusion of the Public

Resolved to exclude the public from the meeting during consideration of the remaining item(s) 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 outweighs the public interest in disclosing the information.

The meeting was adjourned at 12:00pm and reconvened at 12.10pm.

54 Exempt Minutes

The exempt minutes of the meeting held on 25 September 2020 were confirmed as a true record and were signed by the Chair.

55 Companies Financial Governance Framework

The Committee considered the exempt appendix.

Resolved to note the External Audit Findings reports for the companies.