

Nottingham City Council

Audit Committee

Minutes of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 25 February 2022 from 10.30 am - 1.30 pm

Membership

Present

Councillor Audra Wynter (Chair)
Councillor Graham Chapman
Councillor Michael Edwards
Councillor Jane Lakey
Councillor Sajid Mohammed (Vice Chair)
Councillor Anne Peach
Councillor Ethan Radford
Councillor Andrew Rule

Absent

Councillor AJ Matsiko

Colleagues, partners and others in attendance:

Beth Brown	-	Head of Legal and Governance
Mel Barrett	-	Chief Executive
Councillor David Mellen	-	Leader of the Council
John Gregory	-	Grant Thornton External Auditors
Clive Heaphy	-	Interim Corporate Director of Finance and Resources
Shail Shah	-	Head of Audit & Risk
John Slater	-	Group Auditor
Janine Walker	-	Head of Service SEND and Vulnerable Pupil
Emma Powley	-	Governance Officer

61 Apologies for Absence

Councillor AJ Matsiko (Personal)

62 Declarations of Interests

None

63 Minutes

The minutes of the meeting held on the 26 November 2021 were agreed as a true record.

64 Verbal update from Working Groups

Councillor Michael Edwards informed the Committee that the Risk working group had not met since the last Committee but noted that a meeting had been arranged for the first week of March 2022 and would focus on the Section 114 (S114) notice.

Councillor Andrew Rule advised the Committee that the Companies working group had met twice and had discussed governance arrangements including the Conflict of Interest Policy for members sitting on company boards. There had also been focus on the need for a clear demarcation between the work of the overview and Scrutiny Committee and the Audit Committee to limit the duplication of work.

Councillor Jane Lakey advised the Committee that the Capital working group had met and had looked at a number of Key Performance Indicators (KPIs), high value assets and the phasing of receipts. The impact of increases in interest rates had been considered but was not a significant concern as the Council is not particularly exposed to interest rate variability due to a preference for certainty through fixing interest rates.

The Chair commented that the working groups had been in place for some time and suggested that a review of their value should be considered. Whilst they have provided the opportunity for the Committee to drill down in specific areas of concerns, there may be a need for a more agile approach.

65 Work Programme and Action Log

The Committee noted the work programme.

66 Review of Accounting Policies 2021/22

Clive Heaphy, Interim Corporate Director of Finance and Resources introduced the report updating the Committee on the Review of the Accounting Policies 2021/22. The following points were highlighted:

- a) Each year, the finance team review the accounting policies to ensure that they comply with accounting standards; any irrelevant or policies with no material effect are removed.
- b) Following the 2021/22 review there are no significant changes to the accounting policies from 2020/21
- c) The following accounting standards have been introduced by the Code of Practice on Local Authority Accounting for 2021/22:
 - i) Definition of a Business: Amendments to IFRS 3 issued in October 2018. This amendment is not anticipated to have a material impact on the Council's Statement of Accounts.
 - ii) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) issued in September 2019.
 - iii) Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued in August 2020.
- a) The amendments were not anticipated to have a material impact on the Council's Statement of Accounts.

- e) London Inter-Bank Offered Rates (LIBOR) and (London Interbank Bid Rate (LIBID) rates ceased from the end of 2021 and have been replaced with a rate linked to the Sterling Overnight Index Average (SONIA) which also had no material impact on the Council.

Resolved to:

- 1) **Agree the Statement of Accounting Policies for inclusion in the 2021/22 annual accounts (within appendix 1 of the report).**
- 2) **Agree the proposals where International Financial Reporting Standards (IFRS) allowed a degree of choice.**

67 Annual Governance Statement – Process For Producing 2021/22 Statement

Shail Shah, Head of Audit & Risk elaborated on the report that outlined the process for producing the Annual Governance Statement. The following points were highlighted:

- a) Important changes to the governance of the Council have been established during 2020-21, and 2021-22 as a result of the Public Interest Report received in August 2020 and the Non-Statutory Review Report received in December 2020. The draft Annual Governance Statement would be submitted to the July 2022 Audit Committee.
- b) Format changes could be made, to improve accessibility and ease of understanding of the Annual Governance Statement presented in the Statement of Accounts given the importance of the document. This would incorporate guidance expected shortly from CIPFA.

The committee noted the process and timetable for compiling and completing the 2021/22 Annual Governance Statement.

68 Internal Audit Update

Shail Shah, Head of Audit & Risk provided a brief outline of the quarterly update report, which outlined the progress made on the Internal Audit Plan 2021/22.

In response to questions asked and points raised by the Committee, the following information was highlighted:

- a) Regarding the Theatre Royal and Concert Hall, one of the high priority recommendations was for the management to ensure that procurement and approval routes are complied with. A sample had indicated that there had been a breach and an overall opinion of 'limited assurance' was given, as defined in the report annex D.
- b) The amount of days allocated for Counter Fraud had been anticipated to be 400 days, whereas the actual days was 460. There had been some

consideration of employing additional staff, when measured against the cost of fraud, this had not been a viable option.

- c) Internal Audit draw attention to limited assurances and high risk recommendations as part of a risk-based programme of work so that Audit Committee can seek further assurance from the services concerned. An overall picture of the Head of Audit & Risk's view of the control environment of the Council is presented in the Internal Audit Annual Report and the Annual Governance Statement.
- d) Cyber-security remained a high threat risk management priority and efforts were necessary to ensure that the Councils IT system were not exposed.

The Committee requested that a detailed report be brought to the next Committee, providing a drill down into ICT and Information Governance risks.

Resolved to:

- (1) Note the progress reported in respect of high priority recommendations.**
- (2) Note the areas marked as Limited Assurance and request that at the next meeting the Head of IT reports progress in respect of issues raised in the Limited Assurance reports on IT Security and ICT Procurement.**
- (3) Note the progress made on the Internal Audit Plan 2021/22.**

69 External Audit Update

John Gregory, Grant Thornton External Auditor, provided a brief update formally updating the Committee on the progress of their external audit, to place on record the areas that they are most concerned about. The following information was noted:

- a) Due to the delays in the audit of the 2019/20 Financial Statements, they had been unable to complete their Value for Money (VfM) work for the year. Following revised guidance on external audit reporting Grant Thornton very likely would not be giving either a qualified or unqualified opinion but would give a narrative report of significant issues as Grant Thornton becomes aware of them.
- b) Due to the issuing of the Section 114 (S114) notice and other underlying circumstances, it had been necessary for Grant Thornton to revisit their audit assessments in respect of related party transactions, management override and journals.
- c) Three areas of significant weakness had been identified in value for money arrangements:
 - i) Financial Sustainability
 - ii) Company Governance

- iii) Delays in finalisation of annual accounts
- d) The significant weaknesses did not raise any specific concerns as it was anticipated that given the direction of travel these would be addressed as part of the wider journey of the Council and the current pace of change and the process put in place would be effective if properly resourced.
- e) The delay in the finalisation of annual accounts reflected the complexities of the Council; the Accounts process needed to be considered as paramount to the Council and properly resourced.
- f) Clive Heaphy Interim Corporate Director for Finance and Resources, commented that he considered the report to be fair and balanced and the aim was to get up to date with the accounts. Additional work would be needed to ensure that the Council continued to strive for VfM and to ensure best value is evidenced. All of the current work being undertaken with regards to the accounts was being closely monitored by the Improvement and Assurance Board.

In response to questions asked, the following information was noted:

- g) Transactions had been subject to 'sample testing' and work continued to identify how the unlawful transactions between the Council and Nottingham City Homes had occurred and why it had not been flagged earlier. Additional work would also be needed to address the financial management of the accounts stemming back to 2014 and all future accounting has due diligence.
- h) As part of writing the update Grant Thornton had incorporated consultation with members of the Improvement and Assurance Board.
- i) Materiality level for the Council's audit is around £14m, Grant Thornton are thinking seriously about whether any facet of the HRA transactions in question should have drawn their attention. The opinion for Grant Thornton's audit of the 2018/19 financial statements is not considered unsafe.
- j) Recommendations arising from the HRA issue were being managed via several different processes mainly within the Together for Nottingham Plan.
- k) Grant Thornton would take a proportionate approach to the objection made to an item in the 2019/20 accounts – this work had not yet started. It would consider the reasonableness of the policy approach given the information and the price paid for the social benefit.

The Committee noted the report.

70 Update on Section 114 Notice

Clive Heaphy, Corporate Director for Finance and Resources, gave a verbal update on the Section 114 Notice.

The following information was highlighted:

- a) Due to the severity of the financial situation a S114 notice had been issued by the Chief Finance Officer. CIPFA were of the opinion that a S114 notice should be considered as a last resort and following their advice and that of legal professionals, it was considered a necessity.
- b) Consideration of the S114 notice by the Council and the recommendation agreed by Council gave authority to the Chief Finance Officer to change the budget plans approved by Council and to amend future budget measures.
- c) An external review was currently being undertaken and once findings and recommendations have been made, they will be reported back
- d) CIPFA were continuing to examine a number of transactions between the HRA and the General Fund, and within Nottingham City Homes Group.
- e) Partnership working was being undertaken between Nottingham City Homes and the Corporate Director for Growth and City Development, but the Council's Housing Client function needed to be properly resourced and manage the contract with Nottingham City Homes.
- f) The Council's future relationship with Nottingham City Homes is being considered.

In response to questions asked, the following information was noted:

- g) Alternative options had been considered by the S151 officer prior to issuing the S114 notice, but after taking legal advice and consulting with the Head of Paid Service and Monitoring Officer he had felt it proportionate and necessary to issue it.
- h) The Chief Finance Officer would check with the Monitoring Officer, whether the legal advice given in relation to the S114 notice could be shared as there may be restrictions due to legal privilege.

The role of the Audit Committee was to consider what controls were missing that allowed the unlawful activities to happen and over such a prolonged period of time, and confirm that the Council identifies and puts in place relevant controls and obtain assurance that these are effective.

71 Treasury Management Strategy 2022/23 and Capital Strategy 2022/23

Clive Heaphy, Corporate Director for Finance and Resources, updated members on the Treasury Management Strategy 2022/23 and Capital Strategy 2022/23. The following points were highlighted:

- a) Bank Rates are currently at 0.50% with the forecast for further increases, one by March 2022 to 0.75%, then by June 2022 to 1.00% and finally by December 2022 to 1.25%.
- b) The borrowing and debt management strategies intended to provide a sound framework for managing debt, to reduce the Council's future requirement to overall borrowing requirement (known as the Capital Financing Requirement (CFR)) and to reduce the level of debt held by the Council. The CFR is forecast to reduce by around £248m in the period 2022/23 to 2026/27. Voluntary Debt Reduction provides the Council with headroom to borrow above the CFR if the need arises.
- c) The Capital Strategy appended to the report provides the Council with a framework in which capital investment and financing decisions can be aligned with the Council's corporate priorities over the medium term and includes the Voluntary Debt Reduction Policy Statement and the Debt Policy.

In response to questions asked by the Committee, the following information was noted:

- d) Exposure to variable rate debt is very limited and will not impact on performance; there is no new borrowing and the Council is in a much more sustainable position with regards to affordability.
- e) Referring to the capital receipts programme, the Corporate Director for Finance and Resources reported that whilst the Council had various investments, it was necessary to ensure that future capital receipts had been valued correctly with a cautious approach taken, though timing of receipts were generally outside the control of the Council, for each asset, values are based on the likely scenario and risk adjustments made. Controls within the capital programme ensure that the Council is not over-reliant on capital receipts, funds have to be banked before they can be allocated.
- f) The importance of finding a long term solution for the former Broadmarsh Shopping Centre was noted and the Council would continue to explore all available options to work with others in resolving the issue to fully understand and make allowance for known potential liabilities within the capital programme.

Resolved to accept:

- 1) The Treasury Management Strategy for 2022/23, attached as Appendix 1 of the report, and, in particular:**
 - a) the strategy in relation to debt repayment (Minimum Revenue Provision Statement) in 2022/23 (section 5.2 of the report);**
 - b) the Borrowing Strategy for 2022/23 (section 3.4 of the report);**
 - c) the Investment Strategy for 2022/23 (section 4 of the report);**

- d) the Prudential Indicators and Limits for 2022/23 to 2024/25 (section 5.1 of the report);**
- 2) The Treasury Management Policy Statement (section 5.3 of the report).**
- 3) The Capital Strategy 2022/23 (Appendix 2 of the report) including the Voluntary Debt Reduction Policy Statement and Debt Policy (Appendix B of the report).**

72 SEND Transport Monitoring Report 2022

Janine Walker, Head of Service SEND and Vulnerable Pupils, outlined the report and updated members on the SEND Transport Monitoring Report, following the Local Government Ombudsman's Report in the Public Interest relating to an Investigation.

The following points were highlighted:

- a) In 2020, a Nottingham City resident parent complained to the Local Government Ombudsman (LGO) around her experience of Home to School Transport eligibility decisions between autumn 2017 and spring 2019.
- b) The LGO investigation found 'fault causing injustice', and recommended an apology, payment of compensation, and that the Council review its processes and be able to demonstrate the new measures and procedures it will put in place to ensure its decisions and appeals are robust and defensible.
- c) Appeals around travel assistance remained relatively uncommon and a review of the Policy was being undertaken to ensure that it was parent and child-friendly.
- d) Home to school travel is part of the Council's transformation project and the team were exploring ways to improve the digital aspects of the service,

Resolved:

- 1) To note the improvements made**
- 2) That it was not necessary to require a further annual Monitoring Report to be presented in 2023.**

73 Refresh of the Together for Nottingham Plan

Councillor David Mellen, Leader of the Council, gave a presentation and updated the Audit Committee on the Refresh of the Recovery and Improvement Plan. The following points were highlighted:

- a) the Together for Nottingham Plan (TfN), formerly the Recovery and Improvement Plan enabled the Council to continue to plan and manage its assurance activities against the relevant themes.

- b) the Plan had been approved by the Improvement and Assurance Board and had been approved by Council at the meeting held on the 10 January 2022 and was developed in response to the non-statutory review.
- c) The refresh provided the opportunity to reflect on the key milestones and activities and to consider the changes that provide further clarity on the Plan's delivery following availability of improved information.
- d) The main areas of changes were the significant updates to sections on Assets, Companies and Transformation and the identification of additional actions on risk, scrutiny and financial management.

In response to questions asked, the Leader and Chief Executive made the following points:

- e) The TfN Plan focused on members and officers working together and was a self-directed improvement journey. Significant improvements had been made, the Council having moved towards having a stable medium term financial plan. Having avoided Government intervention, the Council remained autonomous allowing the approval and implementation of refreshed Strategic Council Plan.
- f) Work had been undertaken to develop the risk policy which was being developed as part of the improvement journey. Risk management plans were already in place for big projects with more reporting of risk and processes in place to monitor them providing much greater oversight for leadership and the executive throughout the activity. Further work was being carried out to ensure comprehensiveness of this approach.
- g) Debt reduction had been well managed and the Council's borrowing had reduced; debt should not always be considered negatively as it also helps the Council perform its functions for example by lighting streets or providing the tram, however, there was some criticism that borrowing was too high overall and there was a need to get the correct balance in terms of the percentage of revenue servicing debt.
- h) Transformation savings have been based on outcomes achieved elsewhere, but conservative estimates have been used so as not to be complacent about the Council's ability to replicate outcomes. Transformation will not be a mass shift to digital, the Council will continue to engage with citizens in other ways. The Improvement and Assurance Board will continue to provide challenge to the Council on its plans and progress including the detail of transformation and the response to the S114 notice.
- i) The Strategic Council Plan (SCP) is translated into service plans which will be carefully reviewed. The Council did not include anything in the SCP that it knew it would not be able to afford.
- j) Some mistakes made previously had not gone through sufficient due process and there was emphasis that this be remedied, ensuring that the correct

processes and structures are in place. When reviewing the TfN Plan, assurance would be needed to demonstrate that effective, relevant controls were in place and the process to deliver the plan were detailed. The Leader encouraged the Committee to invite theme leads to attend and provide this assurance.

The Committee thanked both the Chief Executive and the Leader for attending the meeting.

Resolved to note the contents of the report, and invite individual theme leads within the Together for Nottingham Plan to provide assurance to the Committee.

74 Exclusion of the public

The Committee decided to exclude the public from the meeting during consideration of the remaining agenda 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 outweighed the public interest in disclosing the information, as defined in Paragraph(s) 3 of Part 1 of Schedule 12A to the Act

75 Exempt Minutes

The exempt minutes of the meeting held on 26 November 2021 were confirmed as a true record.

76 Treasury Management Strategy and Capital Strategy Exempt Appendix

The Committee considered the exempt appendices of the Treasury Management Strategy and Capital Strategy, presented by Clive Heaphy, Corporate Director for Finance and Resources.

Following discussions detailed in the exempt minutes the Committee noted the content of the exempt appendices.