

Nottingham City Council

Audit Committee

Minutes of the meeting held at Tea Room - at the Council House on 30 July 2021 from 10.30 am - 12.20 pm

Membership

Present

Councillor Audra Wynter (Chair)
Councillor Graham Chapman
Councillor Michael Edwards
Councillor Jane Lakey
Councillor AJ Matsiko
Councillor Anne Peach
Councillor Andrew Rule

Absent

Councillor Sajid Mohammed

Colleagues, partners and others in attendance:

Beth Brown - Head of Legal and Governance
Theresa Channell - Head of Strategic Finance
Glyn Daykin - Senior Accountant, Treasury Management
John Gregory - Grant Thornton External Auditors
Sue Risdall - Team Leader, Technical Finance
Shail Shah - Head of Audit and Risk
Caroline Stevens - Principal Risk Specialist
Kate Morris - Governance Officer

18 Apologies

Councillor Sajid Mohammed

19 Declarations of Interests

None

20 Minutes

The minutes of the meeting held on 28 May 2021 were confirmed as a true record and were signed by the Chair.

21 Work Programme and Action Log

Committee Members noted the proposed work programme, and suggested that the Statement of Accounts should be brought to the November meeting prior to final sign off at the February 2022 meeting of this Committee.

22 Working Group updates

The Chair invited updates from the Working Groups.

Councillor Michael Edwards updated the Committee on the Risk and Assurance Working Group, highlighting the following points:

- (a) The group continues to review the Corporate Risk and Assurance Register. Feedback on the format has been provided and the register has been considered by the Executive Panel in advance of being presented to Executive Board in September. An additional column for the register indicating velocity of risk is being considered for future versions of the document;
- (b) Officers have attended the Working Group to discuss the progress of the Recovery and Improvement Plan and provide a summary of the quarterly update report.

Councillor Andrew Rule provided an update from the Companies Working Group highlighting the following points:

- (c) The group has now met and the focus moving forward will be on the implementation and rollout of the Shareholder Unit. Specific focus will be on terms of engagement of Company Directors, internal audit, and training for directors of company boards;
- (d) The working group has suggested that the Shareholder Unit have a whistleblowing facility included within its process.

Councillor Jane Lakey provided an update from the Capital Working group confirming that the group has met and agreed its Terms of Reference. She highlighted the following points:

- (e) There are a handful of Capital Schemes material to Council accounts, including the Broadmarsh project. These will be looked at in more detail in coming months;
- (f) The group will have an ongoing piece of work reviewing asset rationalisation work and gateway reviews of major projects.

Councillor Graham Chapman provided an update from the Anti-Fraud Working Group highlighting the following points:

- (g) Staff have now moved back from work on Covid related business grants to revenue collection;
- (h) There is potentially more scope to recover further funds if this small team is given more resources;
- (i) The current focus of work is around Council Tax and Business rate fraud.

The Chair thanked committee members for their work on the Working Groups and the Committee agreed that as informal working groups they allowed more time to explore certain topics.

23 2019/20 Accounts update

Theresa Channell, Head of Strategic Finance, introduced the report updating the Committee on the progress of the final Statement of Accounts for 2019/20. She

reminded the committee that the draft accounts were published by the statutory deadline in August 2020. She went on to highlight the following points:

- (a) The delay of the 18/19 accounts had had a knock on effect on the work done for the 19/20 accounts. The deadline for the final accounts publication was November 2020 but the external auditors were unable to conclude the work as there were issues outstanding as a result of the delay to the 18/19 accounts;
- (b) Outstanding issues include valuation of specialist assets. These are being produced by external valuers but due to enhanced requirements of auditing standards, many authorities are outsourcing this work. This is resulting in delays as a result of the demand and is an issue for authorities nationally;
- (c) External Auditors for Robin Hood Energy (RHE), MacIntyre and Hudson, have completed most of the work on the 19/20 accounts but there is no requirement for them to provide an opinion once the company had gone into administration. Discussions are ongoing between MacIntyre Hudson, Nottingham City Council and Grant Thornton to establish what assurances can be given around the RHE accounts;
- (d) A likely finish date for the 19/20 accounts is currently subject to ongoing discussions between external auditors and an update will be provided to Committee members as soon as is possible.

Resolved to note the progress in respect of the 2019/20 Statement of Accounts and associated Audit.

24 Draft Statement of Accounts 2020/21 and Draft Annual Governance Statement 2020/21

Theresa Channell, Head of Strategic Finance, introduced the report presenting the draft statement of accounts for 2020/21 for publication and updating the committee on outstanding issues. Shail Shah, Head of Audit and Risk provided information on the Draft Annual Governance Statement for 2020/21. Along with Susan Risdall, Team Leader – Technical Accounting they highlighted the following points:

- (a) Due to the Covid-19 pandemic the deadline for account publication of draft accounts has been extended to 31 July 2021. Deadline for completion of accounts has been moved to 30 September 2021;
- (b) The delay to the 18/19 accounts, and subsequently the 19/20 accounts will have a knock on effect for the 20/21 accounts. The outstanding issues are the same as for 19/20, requirement for valuation of specialist assets and the incomplete accounts of Robin Hood Energy (RHE);
- (c) The draft accounts have been prepared for publication by the deadline together with a statement that the accounts are not complete due to asset valuations and issues around RHE accounts. Once these two issues have been addressed, the accounts will be signed off by the S151 Officer and the Public Inspection period will begin. Discussions with the external auditors of Robin Hood Energy and with Grant Thornton are ongoing to establish the best way to present accounts information for Robin Hood Energy for 20/21;

- (d) An action plan has been created to address comments and issues raised by Committee members, these actions are mostly covered by the R&IP and associated action plan;

During discussion, the following information was highlighted:

- (e) A total of 75 specialist assets require further valuation. There is a very limited number of professionals in the country who are able to carry out the required work and they are in demand across the sector. There is no indication at present when they will be able to complete this work for Nottingham City Council. An update will be circulated to committee members once a timescale is established;
- (f) Nottingham City Council has been in discussion with Grant Thornton around the best way to present the incomplete account information from RHE for 20/21. Grant Thornton need to consult with their technical accounting team to ensure that the proposed strategy will be sufficient before Nottingham City Council considers engaging MacIntyre Hudson to complete further work on the RHE accounts;
- (g) The issues with the RHE accounts for 19/20 and 20/21 are slightly different. The 19/20 accounts are complete but were prepared on a going concern basis. The accounts for 20/21 are not complete as the company went into administration;
- (h) The issue for the Council is how to get assurance that the numbers in the 19/20 accounts are correct. MacIntyre Hudson have access to the accounts, but are not currently under any obligation to provide any assurances. The 20/21 accounts are incomplete as they were not prepared before the end of the accounting period before the company broke up;
- (i) To address this issue NCC Finance are putting together a proposal to move forward that will be considered by the technical accounting team at Grant Thornton, who will take advice from the accounting body and respond to NCC as soon as they have reached a conclusion;
- (j) NCC Finance have taken specialist advice on this matter from CIPFA. All parties recognise that this is a very unusual situation and that there is no precedent to follow. This comes as a result of the materiality of the company accounts for NCC group accounts and the timing of the company break up;
- (k) Other than the issue with specialist asset valuation and how to treat the RHE accounts within NCC Group accounts, the Draft Statement of Accounts is materially complete and will be published by the deadline of 31 July 2021;
- (l) Committee members commented that training on the Statement of Accounts was still outstanding. Finance colleagues confirmed that the plan was for this to take place closer to the publication of the final Statement so that it was fresh in Committee members minds when considering the final document;
- (m) Committee members asked that more acknowledgement of the impact of Covid-19 was included within the draft Annual Governance Statement,

alongside more information around Housing and the current waiting list for Council Housing and the impact of austerity;

- (n) Additional information was also requested on the StreetScene service, how standards have changed and staffing has been allocated following further cuts to services as a result of Government funding reduction;
- (o) Feedback has already been provided by some committee members in relation to the Annual Governance Statement to the Head of Audit around issues such as Broadmarsh project, the Car park and Central Library project and the completion of the College Hub;
- (p) Delivery of Transformation, as part of the Recovery and Improvement plan, is being managed and overseen across the Council following the recent appointment of a Programme Manager, who is developing a comprehensive programme of change. This will include deliverables and ensure that transformation is “cashable”;
- (q) The role of this Committee is to ensure that the correct processes are in place and that outcomes are delivered. It is essential that savings made through transformation are not absorbed into individual departments. Savings as a result of transformation work are clearly included within the Medium Term Financial Plan (MTFP). Further details of this work will be analysed by the Working Groups;
- (r) As Service Plans are updated and transformed, budgets are tracked through the Programme Board offering full transparency on savings made. This information is then fed back into MTFP.

Resolved to:

- (1) Note the progress of the draft 2020/21 Statement of Accounts; and**
- (2) Note draft 2020/21 Annual Governance Statement and the expectation of an updated Annual Governance Statement to be brought to a future committee meeting reflecting the suggestions of this committee, alongside the final statement of Accounts for 2020/21.**

25 External Audit Update

John Gregory, External Auditor – Grant Thornton, provided a verbal update on the progress of the external audits. During discussion the following points were raised:

- (a) Alongside the specialist asset valuation and Robin Hood Energy accounts discussed in minutes 23 and 24 above, external Auditors have been working on the Value for Money conclusions;
- (b) The work around transformation and generation of savings works is encouraging but the Council needs to remain realistic about timescales and scope of savings to be achieved;
- (c) Committee members commented that although there have been transformation agendas in the past, given the level of austerity and cuts to

funding from central Government this programme needs to be wide reaching and bring significant change to generate the savings required;

The committee noted the comments made by the External Auditor in his update.

26 Treasury Management 2020/21 Annual Report

Glyn Daykin, Senior Accountant – Treasury Management, presented the Treasury Management 2020/21 Annual Report to the Committee highlighting the following points:

- (a) The Council has reduced external loan debt by £141.8million. This is a significant reduction in external debt with a corresponding increase in internal borrowing with no new long-term debt taken;
- (b) Average interest rates on debt portfolio have increased to 3.379% due to reduced element of short term loans;
- (c) There have been no breaches of the prudential indicators 2020/21;
- (d) CIPFA have released their proposed changes to the Prudential Code and Treasury Code for consultation and the Public Works Loan Board (PWLB) have released new lending arrangements, prohibit debt for yield.

During discussion, the following points were highlighted:

- (e) The annual cost of servicing debt is £84.758million. The Council is reducing its debt levels, but initially this was mainly short term debt so there is less impact on cost of debt servicing. Further scheduled loan maturities will not be replaced with new loans, these maturities include loans with higher interest rates which will give reduction of this annual cost. No new borrowing will take place as part of the Voluntary Debt Reduction Policy;
- (f) The Council takes external expert advice on interest rates and live market information. Extensive modelling takes place to detail sensitivities within treasury management based on this external advice;
- (g) Loan rates and interest rates are comparable to other Core Cities, it is a daily task to monitor and form a view on future Interest rates;
- (h) Treasury Management staff worked incredibly hard at the start of the pandemic to ensure that the Council remained cash liquid with a number of short term loans to ensure liabilities could be met going forward;
- (i) Given the complexities of calculations and the regular changes it is difficult to quantify the revenue effect of in-year treasury decisions that result in movements in the average pool rate and lending rate to include within the report in future;

The Committee asked that their formal thanks be recorded within the minutes to Treasury Management staff, to celebrate their continued hard work.

Resolved to note the performance information in relation to treasury management for 2020/21

27 Internal Audit Annual Report and Opinion

Shail Shah, Head of Audit and Risk, presented the annual Internal Audit Report and Opinion for 2020/21. He confirmed that throughout the year his independence and scope of work had not been compromised. During discussions and in response to comments and questions from Committee members the following points were highlighted:

- (a) The Opinion around governance and controls remains limited. Work taking place on these themes will develop over the next year and may improve the assessment of the opinion for next year;
- (b) Committee members highlighted that in some places there was a lack of consistency in the language used within the Statement, although in some instances it is not possible to retain control and justify the use of the word “ensure” when looking at fraud recovery;
- (c) Concerns were raised around the limited assurances for Cyber, and IT Security. Committee members requested that this topic be brought to a working group for in depth discussion with IT specialist;
- (d) Concerns were also raised around the limited assurances for Social care as a result of the impact of Covid-19 as highlighted by the CQC. The relevant teams are addressing these issues;
- (e) The Committee requested that executive summaries for all areas with limited assurance be produced and circulated to members so that a panel can assess them and a selection can come for further discussion at Committee later in the year;
- (f) These limited assurances all appear on departmental risk registered and are accelerated if necessary;

Resolved to:

- (1) Note the audit work completed during the year, including the use of other resources of assurance and reliance on those sources;**
- (2) Note the Head of Audit and Risk’s Annual Opinion;**
- (3) Note the proposed Audit Plan for 2021/22;**
- (4) Approve the internal Audit Charter; and**
- (5) Note the Counter Fraud Strategy**

28 Exclusion of the Public

The Committee decided to exclude the public from the meeting during consideration of this/ 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

Audit Committee - 30.07.21

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

29 Exempt Minutes

The exempt minutes of the meeting held on 28 May 2021 were confirmed as a true record and were signed by the Chair.