

Nottingham City Council

Audit Committee

Minutes of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 29 November 2024 from 9.37 am - 12.31 pm

Membership

Present

Councillor Adele Williams (Chair)
Councillor Liaqat Ali
Councillor Michael Edwards
Councillor Samuel Gardiner
Councillor Sulcan Mahmood
Councillor Sajid Mohammed (Vice Chair)

Absent

Councillor Patience Uloma Ifediora
Councillor Eunice Regan
Councillor Andrew Rule

Colleagues, partners and others in attendance:

Councillor Linda Woodings	- Executive Member for Finance and Resources
Parama Datta	- Interim Head of Internal Audit
Stuart Fair	- Interim Corporate Director of Finance
Glenn Hammons	- Interim Assistant Director - Technical Finance
Kate Morris	- Scrutiny and Audit Support Officer
Andrew J Smith	- Grant Thornton – External Auditor
Damon Stanton	- Scrutiny and Audit Support Officer
Mary Wren	- Grant Thornton – External Auditor
Margaret Lee	- Commissioner

50 Apologies

Councillor Andrew Rule – illness
Councillor Patience Uloma Ifediora – annual leave
Councillor Eunice Regan – personal

51 Declarations of interest

In the interests of transparency, Councillor Adele Williams highlighted that she was a former director at Blueprint and Thomas Bow. This did not preclude her from speaking on any item on the agenda.

In the interests of transparency, Councillor Linda Woodings highlighted that she was the Council's former nominated shareholder for Nottingham City Homes (NCH). This did not preclude her from speaking on any item on the agenda.

52 Minutes

The Minutes of the meeting held on 27 September 2024 were confirmed as a true record and they were signed by the Chair.

53 Recommendation Tracker

The Committee noted the Recommendation Tracker.

54 Audit Committee Work Programme for 2024-5

The Chair presented the Committee's Work Programme.

The Committee noted the Work Programme.

55 Internal Audit & Counter Fraud Update

The interim Head of Internal Audit presented a report which provided an update on the delivery status against the 2023/24 annual audit plan (including results of finalised internal audit reports), counter fraud outcomes for 2023/24, work undertaken to develop the risk based audit plan for 2024/25, and a summary of progress made against the risk and internal audit improvement plan. The following information was highlighted:

- a) The 2023/2024 internal audit plan has been successfully completed.
- b) Management responses from all the outstanding internal audit reports have been obtained and are complete.
- c) In accordance with the Public Sector Internal Audit Standards (PSIAS), a risk-based model plan will be in place for 2024/25. The draft Plan reflects the current service development priorities and for 2024/25 these include increased continued emphasis on management accountability, organisational change and risk management. There are, however, limited resources in the team to help deliver the Plan at the pace the Council would like.
- d) The Council has continued to make steady progress against the Risk and IA Improvement programme within the Council's Improvement Plan approved by Council in August 2024 and has taken a prioritised approach in delivering each activity.

The following points were raised in discussion:

- e) The Committee asked if the delivery of the future Plan is in alignment with other local authorities. Assurance was given that the Council had carried out high level horizon scanning to ensure that the Plan is in-line with other Councils but that it also reflects the context and priorities of the City Council at this time. This would be done for both the 2024/2025 and 2025/2026 Plan.
- f) Members sought assurance that the Council has sufficient technical skills to ensure that internal audit could function at a good standard. It was explained that a competency and skills mapping exercise had recently been done which identified some gaps in the skills required in the current team. As part of the functions review process, there has been a number of future operating models identified, and plans can be shared with the Committee at the appropriate time.

- g) The Committee asked how risk, including response and planning to risk, is being embedded within the Organisation, including senior management responsibility and monitored through performance management. It was explained that the current risk register needs refreshing to have more of an impact on the Council's approach to risk, including financial sustainability and service risk. It remains a difficult area for the Council and further improvement needs to be made.
- h) The Executive Member for Finance outlined her concerns in regards to resourcing and that this may pose a challenge to the Council in developing an effective internal audit function. Assurance, however, could be given that the prioritised items for auditing were correct with the limited resources available.

Resolved:

- 1) That work is done to assess whether the Council has the capacity to drive the prioritised items for auditing.**
- 2) To note the status of the 2023/24 audit and counter fraud delivery.**
- 3) To approve the annual audit plan for 2024/25.**
- 4) To note the improvement actions taken to stabilise the Risk and Internal Audit function.**

56 External Audit Updates

Andrew Smith and Mary Wren, representing the Council's External Auditors, Grant Thornton, presented a report which provided an update on the activity of the External Auditors, including the Audit Findings reports; the draft audit opinions for 2020/21, 2021/22, and 2022/23; the draft letters of representation for 2019/20, 2020/21, 2021/22 and 2022/23; and the draft Audit Plan for 2023/24. The report also included an exempt appendix outlining the IT Audit Report which would be considered after the exclusion of the public. The following information was highlighted:

- a) The Committee was reminded that in October 2024 the Government legislated to effectively backstop any audits up to the year 2022/23 by 13 December 2024. The Committee is therefore being presented with audit opinions for the financial years 2019/20 to 2022/23.
- b) The Committee was reminded that the 2019/20 audit will effectively be a backstopped audit as despite the substantial work done a number of issues have been identified which prevented the external auditors from completing the audit. These issues are reflected in the audit opinion. The Committee is being asked to approve the draft letter of representation so that it can be signed and returned to Grant Thornton.
- c) For the remaining accounts up until 2022/23, progress has been limited due to not completing the 2019/20 accounts. Planning, value for money, and IT audit work have been completed but no substantive work done. They are therefore

backstopped opinions, and the implication are that no assurance can be given on opening balances for the 2023/24 accounts and these will have to have a disclaimer opinion. Over time, assurance will be recovered on the Council's accounts and that recovery will start from the 2023/24 audits. The draft audit findings reports summarise the findings and progress made on those years, and the Committee is asked to approve the draft representation letters for those years so they can be signed and returned to Grant Thornton.

- d) The 2023/24 Audit Plan is the start of the recovery period in regaining assurance with the Council's accounts. The external auditors highlighted a number of areas of focus including gathering areas of assurance around the Council's income and expenditure; significant risk areas such as valuation of land and buildings, and net pension liabilities; value for money arrangements; and the audit logistics where Grant Thornton explained they are fully resourced for the 2023/24 audit and the final visit will take place in February 2025. Work will then commence on the 2024/25 audit.

The following points were raised in discussion:

- e) The Committee asked what risk analysis had been done as a result of the accounts not being complete and receiving a disclaimer opinion. It was explained that the biggest risk is that no assurance is able to be given on the opening statements for the 2023/24 accounts, and it will take several years to fully recover the position. Grant Thornton has also not received full assurance that some of the issues which prevented the 2019/20 accounts from being completed have been addressed, such as management override controls, and that this has created uncertainty with the accounts for subsequent years. It was stated that the level of uncertainty is impossible to quantify.
- f) The Committee asked how long the remaining work on the accounts would have taken if the Government had not legislated for the backstop. It was explained that it would have taken a further six months at a minimum per each financial audit due to the complexities involved.
- g) Members queried whether any other local authorities had been prioritised over the Council's audits. It was clarified that no council had been prioritised and that the Council's audits had been complex and taken up significant resources within Grant Thornton.
- h) Although the Council had generally been timely with responding to requests for information, there had been occasions when the external auditors had experienced delays and requests rejected for further investigations by independent forensic experts such as in relation to the management override controls issue identified. Grant Thornton also accepted that there has been resourcing issues on their part. The Chair, however, agreed that this was a national issue and that the backstop allowed the Council to start to recover assurance and stabilise its position.
- i) The Committee asked at what point will full assurance be recovered on the Council's accounts. It was explained that the 2024/25 audit is when real progress could be made on recovering assurance, although it is unlikely that all of the

opening balance sheet issues will be resolved at this point, and it may take several years to fully recover assurance. This is also a national issue and not unique to Nottingham City Council. The Government and industry regulator are still in discussion about potential solutions to the problem to due to the impact on the sector.

- j) There was a consensus that as the Council rebuilt its internal audit processes and regained assurance, this would in turn give the external auditors more confidence and assurance in the Council's accounts.
- k) The Executive Member for Finance informed the Committee that the Council has an improvement plan in place based on strengthening internal governance and looks to address the management override issues identified, and that there is a financial accountability framework in place for all officers. The NCC Improvement Plan also has several areas of work which are being progressed. This should allow greater assurance on the in-year balances.
- l) The Committee discussed property valuations and asked for assurance that previous issues had been resolved. It was explained that an external valuer has been appointed, and they are now responsible for the maintenance of records around valuations. The Council's external auditors are therefore assured that previous issues would not be repeated.

Resolved:

- 1) To note the report and its associated documents.**
- 2) To note that the report contains an exempt appendix which will be considered once the public and press have been excluded.**

The Committee adjourned at 10.37am and reconvened at 11.17am.

57 Statement of Accounts Progress Update

Glenn Hammons, Interim Finance Lead – Technical Finance, presented a report which provided an update on the progress the Council is making with its Statement of Accounts. The following information was highlighted:

- a) There are three sets of accounts for the Committee to consider and approve ahead of the backstop date of 13 December 2024.
- b) All years up until 2022/23 are at 100% production, and the Council is nearly there with the production of the draft 2023/24 accounts.
- c) For 2019/20, the Committee approved its accounts at its meeting in September 2024, however the management responses to recommendations in Grant Thornton's Audit Findings Report were outstanding. Those responses are now attached as an appendix and further updates will be provided in future meetings. Also attached as an appendix is a Management Representation Letter for the Committee to consider and approve.

- d) For the 2020/21 to 2022/23 accounts, the public inspection for those accounts have been completed and the Council did not receive any questions in relation to those accounts. The accounts are presented to the Committee for consideration and approval.
- e) The accounts have been prepared by experienced local government accountants, in-line with CIPFA codes, and the required accounting practice. Key figures in the accounts have been provided by experts, including property valuations provided by qualified valuers both internal and external, and pension figures provided by the Pension Fund. The S151 Officer has considered the accounts as true and fair and in-line with the statutory requirements. Each year has a Management Representation Letter to sit alongside the accounts.
- f) If the Committee is minded to approve the accounts, the S151 Officer and the Chair of the Committee will sign the accounts and provided to Grant Thornton who will do their final checks before issuing an audit opinion. All to be completed by the backstop date of 13 December 2024.
- g) Significant progress has been made in the preparation of the 2023/24 accounts, and it is anticipated that they will be available for public inspection in the coming weeks.
- h) Council officers have been working closely with Grant Thornton in relation to their audit work.

The following points were raised in discussion:

- i) The Committee wished to place on record its gratitude to colleagues for the preparation of the accounts, and for the Council now being able to draw a line and start to regain assurance.
- j) The Council's S151 Officer provided assurance that since his appointment, he was satisfied that the quality of the formulation of the accounts represent good practice which are in-line with the CIPFA code of practice and accounting standards, and represent a true and fair view of the financial position.

Resolved:

- 1) That the Committee takes assurance from the current position with the progress on the Statement of Accounts for the years 2019/20 through to 2023/24.**
- 2) That the Committee notes the Council's management responses to the Audit Findings Report 2019/20.**
- 3) That the Committee approves the Management Representation Letter for 2019/20.**
- 4) That the Committee approves the Statement of Accounts 2020/21, Annual Governance Statement 2020/21 and addendum to the Annual**

Governance Statement 2020/21, and approve the Management Representation Letter for 2020/21.

- 5) That the Committee approves the Statement of Accounts for 2021/22 and Annual Governance Statement 2021/22, and approve the Management Representation Letter for 2021/22.**
- 6) That the Committee approves the Statement of Accounts for 2022/23 and Annual Governance Statement 2022/23, and approves the Management Representation Letter for 2022/23.**
- 7) That the Committee notes the draft Statement of Accounts for 2023/24 will be published by Officers for public consultation following consultation with the Chair of the Audit Committee.**
- 8) That the Committee takes assurance from the progress, indicative timeline and associated risk for publishing the Statement of Accounts for financial years 2019/20, 2020/21, 2021/22, 2022/23 and 2023/24 to meet the proposed national backstop dates.**

58 Treasury Management 2024/25 Half-Yearly Update

Glenn Hammons, Interim Finance Lead – Technical Finance, presented a report which sets out details of Treasury Management actions and performance from 01 April 2024 to 30 September 2024. The following information was highlighted:

- a) The report sets out the performance and actions against the Treasury Management Strategy which Council approved in March 2024 and covers the period from April to September 2024.
- b) In-line with the Capital Strategy and Voluntary Debt Reduction Policy, no new borrowing has been undertaken during the first six months of the financial year. The Council, has, however, repaid a number of external loans to the value of £33.7 million over that period.
- c) The average interest rate on the debt portfolio is 3.36%. No debt rescheduling has taken place. There has been an early repayment of £15 million in market loans which has had a beneficial impact on the Council's average interest rate and has saved the Council around £9 million.
- d) The average investments over the period were achieving a return of 5.12% which is in-line with national benchmarks.
- e) During the period there was compliance with all of the prudential indicators that were set by Council in March.

The following points were raised in discussion:

- f) The Committee found the Treasury Management training useful and considered whether it would be beneficial to provide this to all Councillors due to its importance for the Organisation.

- g) The Committee welcomed the proactive approach taken to Treasury Management at the Council and thanked officers.
- h) Members asked if the area was sufficiently resourced. The S151 Officer explained that there is a legacy issue of high levels of debt, but that it is being managed well and that Treasury Management was well considered and mature at the Council. This is crucial as debt financing costs are a hit to the General Fund and Housing Revenue Account (HRA) so the Council needs to be mindful of any further investment decisions.
- i) The Committee asked about risk in the economy and what advice the Council receives externally. It was explained that the Council uses Treasury Management advisors who provide industry wide and specific local government advice to Councils. The external advisors have recently revised their interest rate forecasts for an increase which should benefit the Council as it will be making a greater return on its investment which have been factored into the medium term forecasts going forward. From the Council's perspective, from both its debt and investment portfolio, it is focusing on low risk quality products in the market rather than entering into products which are high risk. The Committee encouraged officers to keep the advice it receives open to different perspectives.
- j) The Committee discussed whether the merging of local government pension funds presented a risk to the Council. There would be no direct impact on the Council's Treasury Management activities, however there may be an impact on the Nottingham Pension Fund. The Council works closely with the Pension Fund who set the contributions on a three-year basis. In the new year, the Council will be seeing new valuations for the next three-year cycle. The Council has to make sure it is funding the pension scheme fully over the medium to long term and will engage with the Fund to ensure that those contributions are appropriate.
- k) The Committee asked about the latitude in ensuring that the Council's investments were of good social value and benefited Nottingham residents. It was explained that there was an element within the Treasury Management Strategy that relates to environment factors and specific investments that the Council would not make, however the overriding factor was that of secure investments. There are investment funds emerging that consider social and environmental factors, but the Council needs to follow its core investment principles first and foremost.

Resolved:

- 1) That as part of developing the Treasury Management Strategy for the next financial year, it includes a consideration that investments of good social and environmental value can be made.**
- 2) That the Committee takes assurance that the Treasury Management controls and risk management practices in place are operating and working effectively.**
- 3) To note the Treasury Management actions taken in 2024/25 in the period to 30 September 2024.**

59 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.

60 Internal Audit - Exempt Appendix

The Interim Head of Internal Audit presented the exempt appendix to the Internal Audit report. The detail of discussion and resolutions are contained within the Exempt Minutes.

61 External Audit Update - Exempt appendix

Andrew Smith and Mary Wren, representing the Council's external auditors, Grant Thornton, presented the exempt appendices to the External Audit Update report. The discussion and resolutions are contained within the Exempt Minutes.

62 Exempt Recommendation Tracker

The Committee noted the exempt Recommendation Tracker.