

## **NOTTINGHAM CITY COUNCIL**

### **AUDIT COMMITTEE**

**MINUTES of the meeting held at LH 2.13 - Loxley House, Station Street, Nottingham, NG2 3NG on 1 July 2016 from 10.32 - 12.00**

#### **Membership**

##### Present

Councillor Sarah Piper (Chair)  
Councillor Steve Young (Vice Chair)  
Councillor Leslie Ayoola  
Councillor John Hartshorne  
Councillor Anne Peach  
Councillor Malcolm Wood

##### Absent

Councillor Dave Liversidge  
Councillor Andrew Rule  
Councillor Toby Neal

#### **Colleagues, partners and others in attendance:**

Shail Shah	- Head of Audit and Risk
Glyn Daykin	- Finance Analyst within Treasury Management
Sue Risdall	- Finance Analyst,
Jane O'Leary	- Insurance and Risk Manager
Tom Straw	- Capital Finance Manager
Ian Roper	- Commercial Finance Team Leader
Thomas Tandy	) KPMG External Auditors
Tony Crawley	)
Lucy Littlefair	- Head of EMSS
Catherine Ziane-Pryor	- Governance Officer

#### **11 APOLOGIES FOR ABSENCE**

Councillor Andrew Rule - personal

#### **12 DECLARATIONS OF INTERESTS**

None.

#### **13 MINUTES**

Subject to the following amendments, the minutes of the meeting held on 13 May 2016, were confirmed and signed by the Chair:

Minute 7, KPMG External Audit Progress Report and Technical Update, paragraph (b) is to refer to 'Sheffield Regional Combined Authority' and not Sheffield City Council.

Minute 9, Partnership Governance Verification of Health Checks:

- (i) deletion of (4)(ii) regarding how partners determine objectives and how they propose to achieve those objectives;

- (ii) replacement of resolutions (2) and (3) with the resolution 'for the concerns raised by Committee members regarding partnerships' objectives and potential associated reputational risk, to be referred to the Overview and Scrutiny Committee for consideration as part of their work programme.'

## **14 HOUSING BENEFITS RISK-BASED VERIFICATION**

Ian Roper, Commercial Finance Team Leader, presented the report which updates the Committee on the risk-based verification of a new housing benefit claims.

The risk-based verification policy for the financial year 2016/17 is attached to the report.

The following points were highlighted:

- (a) the former approach to verifying housing benefit claims evidence was costly and time-consuming. During the past five years a risk-based verification pilot scheme has been running where the claims are placed within categories of high and low and medium risks with regard to potential fraud and error;
- (b) a range of indicators using complex algorithms have been used to identify risk levels and for high risk applications the applicant will be asked to provide specific documentary evidence prior to the claim consideration;
- (c) it is now possible for citizens to apply for housing benefit online using the Venture System which, on the information provided, grades the application risk and provides an almost instant appropriate response to each applicant, including accepting the claim without asking for proof or specifying what type of documentary evidence is required;
- (d) this new system saves time and money, improves efficiency and has led to improved customer housing benefits applications satisfaction as claims are turned round much quicker;
- (e) implication of the scheme cost £25,000 and costs £5,000 per year maintenance. This equates to approximately 43p per housing benefit claim handled;
- (f) 20% applications are considered high risk with a 5% sampling of medium and low risk applications taking place were these claims are treated as high risk by requesting documentary evidence, to ensure that the system is working appropriately;
- (g) following the success of the pilot, the scheme has now been implemented.

Members' questions were responded to as follows;

- (h) following new legislation, the City Council is working with Nottingham City Homes towards enabling the 'pay to stay' scheme which will be introduced next April, although progress is slow and the scheme is generally aimed at citizens with medium to high paid jobs;
- (i) the application of and initial outlay for this system this is part of the service improvement contract between Nottingham City Council and Northgate, with key milestones set to identify and ensure the required delivery;
- (j) there is no particular impact resulting from universal credit which is considered as another DWP benefit. The City Council is able to access DWP system to check which benefits are being received by claimants. As universal credit can be linked to earnings, this results in a lot of changes to benefit payments which then also are reflected in housing benefit payments.

Members welcomed the risk-based verification system.

**RESOLVED to note the adoption of a risk-based approach to the verification of new claims for housing benefit.**

## **15 ACCOUNTS TRAINING**

Sue Risdall, Finance Analyst, was accompanied by Tom Straw, Capital Finance Manager, and provided accounts training, focusing on the main messages of the 2015/16 Statement of Accounts which are currently being audited. The training included a presentation which was submitted to the online agenda following the meeting.

Following points were highlighted:

- (a) key performance information can be shown by
  - (i) General Fund and Housing Revenue Account performance;
  - (ii) reserves position;
  - (iii) cash flows;
  - (iv) comparisons with budget;
- (b) the comprehensive income and expenditure statement (CIES) is split into two parts:
  - (i) the operating cost of providing City Council services, showing surplus or deficit in the 'provision of services line' of the accounts, which if in the private sector would equate to profit or loss;
  - (ii) gains and losses of the Council's assets and liabilities are shown within 'other comprehensive income and expenditure';
- (c) the Council's final position at the end of the year is shown in the balance sheet which identifies net assets balanced by total reserves;
- (d) the level of reserves indicated resources available to the Council to deliver services in the future and include:
  - (i) usable general fund (unallocated);
  - (ii) usable earmarked;
- (e) unusable reserves cannot be used to support the Council Tax/General Fund and reflect the technical adjustments to the accounts for the following reasons:
  - (i) revaluation of assets;
  - (ii) timing differences between accounting basis;
  - (iii) financing and depreciation of capital expenditure;
- (f) the cash flow statement identifies the net cash flows the cash available at the end of the year;
- (g) under legislation, local authority budgets are formulated differently to the requirements of the international financial accounting standards (IFRS), the impact of which is detailed in the presentation and requires adjustments to the accounting basis;
- (h) consolidation of group accounts relates to:
  - (i) subsidiaries and trusts;
  - (ii) associates and joint ventures;
  - (iii) removing all intragroup transactions and balances.

Member's questions were responded to as follows:

- (i) earmarked reserves are annually reviewed by the City Council to ensure they are still required;
- (j) the fact that the cash flow statement shows a 40% drop at the end of the year from the start is not an issue for concern and is part of the financial strategy;

- (k) schools are included within the accounts with address notes to highlight any points academies and not within budget but the City Council is still liable for some Academy pensions.

It is noted that the public inspection of accounts starts today.

## **RESOLVED**

- (1) to record the thanks of the Committee for the training session;**
- (2) for Sue Risdall to arrange a further training session for members to be held in early September, focusing on the accounts.**

## **16 KPMG EXTERNAL AUDITORS UPDATE**

Thomas Tandy and Tony Crawley, KPMG External Auditors, verbally updated the Committee on progress to date of the external audit. The update included following points:

- (a) a lot of time has been spent planning for the final accounts with focus on payroll, pensions and DWP;
- (b) whilst the deadline for submitting accounts is the end of June, from next year this will be brought forward to the end of May but KPMG colleagues are confident the City Council will be able meet this new deadline;
- (c) the results of examining value for money work and the 'better care fund arrangements' will be reported to the Committee at the September meeting;
- (d) Housing Benefit claim audits are underway and should be completed by the end of November.

## **17 EXTERNAL AUDIT QUESTIONS TO THOSE CHARGED WITH GOVERNANCE 2015/2016**

Councillor Sarah Piper, Chair of the Audit Committee, introduced a report which outlines her response to questions posed regarding topics within the committee's remit by the external auditors KPMG.

The questions raised and responded to included:

- (i) an oversight of fraud, detection management and mitigation;
- (ii) the Chair's views on fraud risk;
- (iii) fraud identified by the audit committee and any action taken;
- (iv) compliance with the legal and regulatory framework.

**RESOLVED to note the response given by the Chair of the Audit Committee to the external auditor as attached as appendix 1 to the report.**

## **18 AUDIT COMMITTEE CHAIR'S ANNUAL REPORT 2015/2016**

Councillor Sarah Piper, Chair of the Audit Committee, presented the annual report for 2015/16 which outlined work undertaken by the Committee, the terms of reference, and how the topics considered aligned to the terms of reference.

In the overview work undertaken, the Chair highlighted, with regard to the City Council's IT, that Simon Salmon, Head of IT, had provided excellent public and private briefings and presentations which resulted in the Audit Committee feeling confident that systems are secure.

It was noted that of the 110 complaints received by the Local Ombudsman against the City Council, only 6 had been upheld.

**RESOLVED to note the work undertaken and approve the annual report at Appendix 1 to report.**

## **19 TREASURY MANAGEMENT 2015/16 ANNUAL REPORT**

Glyn Daykin, Finance Analyst within Treasury Management, presented the comprehensive Treasury Management 2015/16 Annual Report for the Committee to scrutinise.

Whilst it is recognised that a referendum vote to leave the European Union will have financial implications which will ultimately impact on the City Council Capital Programme and Therefore Treasury Management, this could be considered by the Committee at the September meeting.

The points highlighted from the report included:

- (a) the long-term debt decreased by £15.3 million and temporary borrowing increased by £17.7 million. There has been with no new long-term borrowing;
- (b) the average interest on the £146.5 million invested was 0.678%;
- (c) £2.3 million is still held in Icelandic Kroner by the Central Bank of Iceland and cannot yet be accessed, however it is earning approximately 4% interest. It is not expected the City Council will be able to access these funds in the short term.

**RESOLVED to note the Treasury Management 2015/16 Annual Report attached as Appendix A to the report.**

## **20 UPDATE ON THE REVIEW AND IMPROVEMENT OF THE DELIVERY OF STRATEGIC RISK MANAGEMENT**

Shail Shah, Head of Audit and Risk, introduced the report which informs the Committee that the review of the existing risk management process has been completed and that the results of a benchmarking exercise will inform the 2016/17 Risk Management Strategy.

Jane O'Leary, Insurance and Risk Manager, had met with Councillor Steve Young whilst formulating the Strategy which is now ready for submission to the Corporate Leadership Team, along with the Policy and Process documents. Final versions are expected to be submitted to the September Audit Committee meeting.

Workshops have been held with Corporate Directors but these are expected to be rolled out to other colleagues to ensure that the strategy is embedded.

Zurich are also assisting as they have experience of Risk Management Strategies in other Local Authorities which had proved valuable.

**RESOLVED to note the update.**

## **21 INTERNAL AUDIT CHARTER**

Shail Shah, Head of Audit and Risk, introduced the report which presents the Internal Audit Charter, setting out the purpose, authority and responsibility of the Internal Audit function within the City Council.

It is noted that Internal Audit Standards are now applied across all Public Sector organisations including the NHS and Police.

**RESOLVED for the Internal Audit Charter, as attached at Appendix 1 to the report, is endorsed.**

## **22 INTERIM ANNUAL GOVERNANCE STATEMENT 2015/16**

Shail Shah, Head of Audit and Risk, introduced the report which presents the interim Annual Governance Statement (AGS), the final statement will be published with the City Council's Statement of Accounts.

The following topic areas are listed under the heading of 'Issues worthy of noting' and it is expected further topics may be added for the final AGS which will be presented to the September meeting of the Committee:

- (i) Central Government Review of Local Government Funding and Balancing the Council's Budget;
- (ii) Children in Care;
- (iii) East Midlands Shared Services (EMSS);
- (iv) Nottingham Express Transit (NET)
- (v) Workplace Parking Levy (WPL);
- (vi) Information Governance;
- (vii) Nottingham Revenues and Benefits;
- (viii) Information Technology;
- (ix) Robin Hood Energy;
- (x) EnviroEnergy.

**RESOLVED to note the Interim Annual Governance Statement.**

## **23 INTERNAL AUDIT ANNUAL REPORT 2015/16**

Shail Shah, Head of Audit and Risk, introduced the report which presents the Internal Audit Annual Report for 2015/16. The report includes the Head of Audit and Risk's annual opinion on the effectiveness of the internal control systems operating within the City Council and its significant partnerships, and also a summary of the work which supports that opinion.

The Committee was requested to select two audits for further consideration in November from those listed in appendix 2 to the report which have been undertaken and completed during the January to March of 2015/16. It is noted that further final reports for 2015/16 will be presented to the September meeting of the Committee.

The following points were highlighted:

- (a) all KPIs have been met, and in some instances exceeded with regard to audit performance;
- (b) the Head of Audit and Risk was pleased to announce that he has issued an opinion of 'significant assurance' regarding the internal control systems operating within the City Council and its significant partnerships, this equates to 'reasonable' under previous terminology.

**RESOLVED**

- (1) to note the audit work completed during the year;**
- (2) to note the Head of Audit and Risk's annual opinion of significant assurance;**
- (3) for the selection of audits for the Committee to consider in more detail to be deferred to the September meeting to enable a wide choice of topics.**

**24 EAST MIDLANDS SHARED SERVICES UPDATE**

Shail Shah, Head of Audit and Risk, introduced the report which refers to the exempt appendix of the East Midland Shared Services (EMSS) Annual Report which includes the opinion of the Head of Audit and Risk. Lucy Littlefair, Head of EMSS was in attendance.

**RESOLVED to note the report.**

**25 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 in the public interest in disclosing the information.**

**26 EMSS UPDATE EXEMPT APPENDIX**

Further to the covering report, Lucy Littlefair, Head of EMSS, provided an update on issues raised by Councillors of the Committee who were assured by her responses.

A summary of the discussion which took place around the exempt Appendix is recorded as an exempt minute.