



## Additional / To Follow Agenda Items

This is a supplement to the original agenda and includes reports that are additional to the original agenda or which were marked 'to follow'.

### Nottingham City Council Audit Committee

**Date:** Friday, 22 March 2024

**Time:** 9.30 am

**Place:** Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG

**Governance Officer:** Kate Morris **Direct Dial:** 0115 8764214

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**Audit Committee – 22 March 2024**

<b>Title of paper:</b>	<b>Annual Governance Statement – Process For Producing 2021/22, 2022/23 &amp; 2023/24 Statement &amp; Prior Year Updates</b>	
<b>Director(s)/ Corporate Director(s):</b>	Ross Brown Corporate Director of Strategy and Resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Shail Shah Head of Audit & Risk John Slater Group Assurance & Audit Governance Manager	
<b>Other colleagues who have provided input:</b>	Corporate Director Communities Environment & Resident Services Interim Director of Commercial and Procurement Deputy Director of Public Health Director of Finance (Deputy Section 151 Officer) Interim Technical Finance Team Manager	
<b>Does this report contain any information that is exempt from publication?</b> No		
<b>Recommendation(s):</b>		
<b>1.</b>	To note the proposed establishment of a Corporate Assurance Framework by October 2024 following review of the local governance framework, complying with Chartered Institute of Public Finance and Accountancy (CIPFA) Leadership Assurance Frameworks guidance (December 2023), and the Local Government Association's (LGA) Improvement and Assurance Framework for Local Government (currently in consultation) as set out in section 3.	
<b>2.</b>	To note the process to update prior year Annual Governance Statements for 2019/20 and 2020/21 to support statutory requirements for the financial statements as detailed in section 4.4-4.6 and 4.8 of the report.	
<b>3.</b>	To note the process and timetable for compiling and completing the 2021/22, 2022/23, and 2023/24 Annual Governance Statement and associated risks, as detailed in section 4.7-4.14 of the report and Appendix 1.	
<b>4.</b>	To note the summary of changes to governance, as detailed in section 5 of the report.	

**1. Reasons for recommendations**

1.1 The Audit Committee is responsible for overseeing and reviewing the council's governance arrangements and statement of accounts, this report provides an update on the following:

- The process for compiling the 2022/23 and 2023/24 (AGS).
- The process for completing drafting of the 2021/22 AGS and updating the AGS for 2019/20 and 2020/21 years as part of the statutory requirements for financial statements.
- Proposed review the local governance framework and establishment of a Corporate Assurance Framework.
- Key changes in the governance environment since the last Annual Governance Statement (AGS) update.

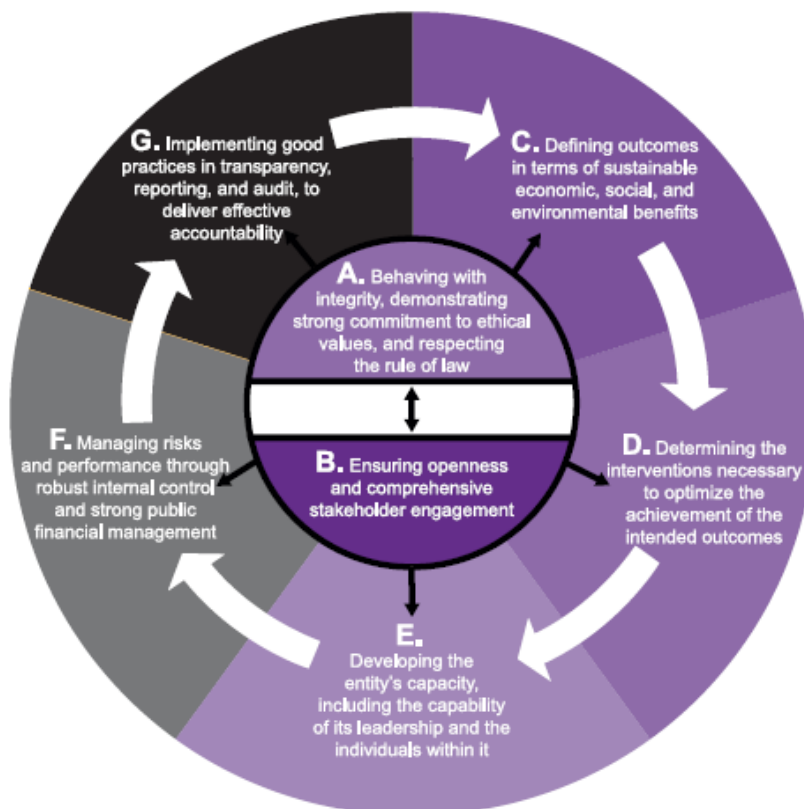
## 2. Background

- 2.1 This report supports the Audit Committee in discharging its functions as set out in its terms of reference and latest guidance which include to:
- Provide independent review of the Council's governance, risk management and control frameworks.
  - Oversee the financial reporting and annual governance processes.
  - Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.
  - Review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and controls.
  - Approve the Council's Statement of Accounts and associated governance and accounting policy documents.
  - Review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 2.2 The National Audit Office's 2019 report on Local Authority Governance notes three key challenges:
- Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures.
  - Local checks and balances need to be effective in a more complex and less well-resourced context for local decision-making.
  - Effective governance arrangements are an important aspect of ensuring financial control at a time of financial pressure.

## 3. Local Governance Code & Assurance Framework

- 3.1 The Council's local corporate governance code was updated in February 2017. The Audit Committee has incorporated the 2016 guidance as the Council's local code in both the evaluation of its governance arrangements and in the production of its AGS. The diagram below, taken from the International Framework, illustrates the various principles of good governance incorporated in the local code.

## Achieving the Intended Outcomes While Acting in the Public Interest at all Times



- 3.2 The Council's governance arrangements aim to ensure that objectives and responsibilities are set out and met in a timely, open, inclusive, and honest manner. The governance framework comprises the systems, processes, cultures and values by which it is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.
- 3.3 The 2007 CIPFA/SOLACE (updated 2016 - effective for 2017/18 statement) publication "Delivering Good Governance in Local Government Framework" provided the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting of 20 May 2008. However current arrangements are not consistent with expectations in the Financial Management Code or expected specifications of LGA guidance to be published in 2024.
- 3.4 The Council's Executive and Senior Management has not formally reviewed the local governance framework, since 2008. New guidance from CIPFA also sets out the following expectations:
- that the authority's leadership have defined an appropriate framework of assurance, including core arrangements, major service areas and collaborations and external bodies.
  - that the Audit Committee review the adequacy of this framework.
  - that Audit Committee assure itself regarding the effectiveness of ethical governance arrangements for both staff and councillors. The Audit Committee should invite the Monitoring Officer to set out the assurances they use to assess the effectiveness of ethical governance arrangements.

3.5 It is proposed to review the local governance framework and set out a corporate assurance framework by October 2024, having due regard to the guidance on Leadership Assurance Frameworks issued by CIPFA in December 2023, and the expected Local Government Association’s (LGA) improvement and assurance framework (currently in consultation). This should coordinate assurance activity, to ensure that it is available for multiple lines of assurance for 2024/25 onwards (as shown in the diagram below), including the AGS, whilst aligning to the relevant best practice developed by CIPFA/SOLACE and the Institute of Internal Auditors. This will be aligned with the existing plan for embedding transformation and change through a Corporate Programme Management Office.

### Lines of Assurance

Bodies charged with governance		1 <sup>st</sup> line of assurance		2 <sup>nd</sup> line of assurance		3 <sup>rd</sup> line of assurance		
		Responsibilities for implementation and accountability						Arrangements for testing
		Operational ownership & management		Oversight and compliance specialists				
Full Council Audit Committee		Directorate leadership teams, Directors and Heads of Service		Specialist Officers Proper officers		Independent Assurance		
Internal Control Systems	Define & Document	Clear policy, role and process arrangements, resources and oversight arrangements		Development of policy and procedure from corporate and statutory rules and guidance		Internal Audit	External Audit	External Inspectors
	Clearly Communicate	Leadership – cascading information, expectation, local training		Guidance & training				
	Effectively Embed	Engagement with colleagues and other stakeholders		Oversight and advice according to need and risk				
	Meaningfully Monitor	Local performance management arrangements including complaints Risk identification and management Commission reviews and assurance Escalation		Develop robust performance indicators Benchmarking Risk Identification Commission reviews and assurance Escalation				
	Review and Refine	Feedback on systems and intervention Action Planning & Monitoring		Review against legislation, sector best practice and guidance Strategic review of arrangements Feedback and intervention Annual Governance Statement		Action recommendations and evaluation of implementation ←		
<b>Corporate Assurance Framework</b>								
Officer oversight		Corporate Leadership Team		Strategy Prioritisation Financial Oversight Human Resource Plan Alignment		Legal advice & challenge Financial advice & challenge Ethical advice & challenge Transparency and Access to Information Statutory reports		Commissioned reviews from 3 <sup>rd</sup> line (due to gaps in corporate assurance framework and assurance appetite) ←
Democratic oversight		Executive members Executive Board		Implementation of manifesto Portfolio compliance with budget Political prioritisation Delivery of political priorities Political challenge		Policy and delivery (Scrutiny Cttees) Governance, Risk and Control Assurance and financial reporting (Audit Cttee) Ethics and member integrity (Standards Cttee) Casework (all members)		←
Commissioner oversight		Lead commissioner, finance commissioner & transformation commissioner						Commissioner oversight

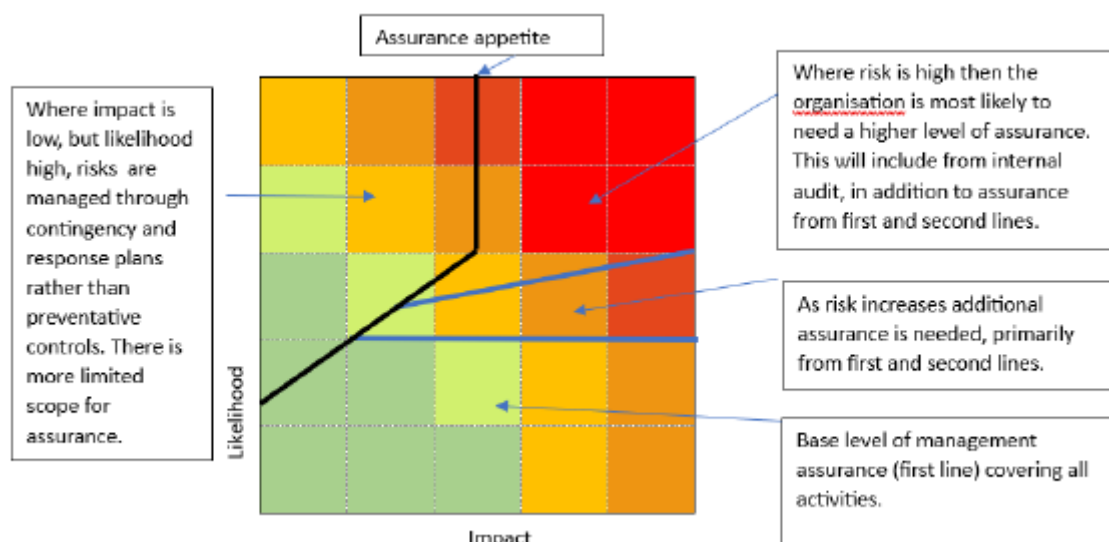
### CIPFA’s guidance

3.6 CIPFA’s guidance states

“Having appropriate and sufficient assurance arrangements will provide the leadership team with confidence that they have appropriate control arrangements to manage the major strategic risks facing the authority. They will also provide confidence that scarce resources are being used in a way that is proportionate and focused.

The relationship between risk, assurance appetite and the source of assurance is illustrated in the diagram below. In practice, planning assurance should be dynamic in response to risk and the level of confidence assurance is providing.

## An organisation's appetite for assurance in comparison to risk and application of the three lines



Overall, the leadership team will require a mix of sources of assurance and will need to determine an appropriate balance, bearing in mind the level of risk. For example, line managers may provide adequate assurance, using existing mechanisms for some areas. Managers can give regular detailed updates or assurance, and they will have a high degree of familiarity with their area. Where additional assurance is needed, or where authorities are particularly risk averse and need confidence that arrangements are robust, additional or independent assurance is required. Sources such as internal audit can give significant confidence to the leadership team by providing an independent opinion.”

### 4. Annual Governance Statement

- 4.1 The publication of an AGS is required by the Accounts and Audit Regulations 2015. The Council is required to conduct a review, at least annually, of the effectiveness of its internal control and prepare a statement in accordance with proper practices.
- 4.2 The AGS reflects the governance framework operating within the Council and includes group entity activities where significant. The issues identified and the consequent plans for their mitigation are used to direct corporate resources, including those of Internal Audit.
- 4.3 The Committee has delegated authority for the formal approval of the AGS. The AGS is signed by the Leader of the Council and Chief Executive and published alongside the Statement of Accounts.

### AGS Progress

- 4.4 The table below provides initial status and indicative timeline for key milestones for achieving these backstop dates:

Financial Year	2019/20	2020/21	2021/22	2022/23
AGS Status	Draft issued	Draft issued	Drafting	Not yet reviewed
Addendum required	Yes, complete	Yes, complete	No	No
<b>Milestones</b>				
Public Inspection	Complete	May 2024	May 2024	June/July

Period				2024
Audit Committee Consider Approval	May or 28/6/24	28/6/24	28/6/24	26/7/24 or Early Sept
External Audit Opinion	TBC			
Proposed Backstop Date	30 September 2024			

### Indicative Timeline

- 4.5 The government has consulted on clearly the backlog of local authority financial statements audits and proposed backstop dates for Phase 1: Reset, covering all outstanding Accounts up to and including 2022/23. An up to date AGS is required for each financial year to accompany draft and final accounts.
- 4.6 The draft AGS addenda for 2019/20 and 2020/21 final versions will incorporate any further updates related to the issues identified for those years in accordance with guidance.
- 4.7 The 2021/22 draft AGS has not yet been issued but a draft has been updated for issues to date and the summary of the governance environment included is to be updated in time to be available for the inspection period as indicated in the table above.
- 4.8 It should be noted there are a number of risks to this indicative timeline. These include:
- The timely conclusion of an audit opinion being issued for 2019/20, including the impact of the conclusion and further queries on downstream timelines
  - Finalisation of the national backstop dates and related requirements/guidance being formally approved and published
  - Timing and delivery of the external audit for 2020/21 and subsequent years accounts
  - Confirmation of the timing, and outcome of the consultation, of proposed backstop dates and related guidance at a national level to address the backlog in local government audit.
  - Staffing capacity and skills, including single point of failure risk. The AGS requires input from a range of specialists and senior managers. If any of these staff were to leave or be unavailable it would impact on the Council's ability to achieve the timelines.

### 2022/23 & 2023/24 AGS Review Process and Timeline

- 4.9 The 2022/23 AGS review will be carried out alongside the 2023/24 review and a draft AGS will be prepared for each year. The timeline for this review is shown at appendix 1 and aligns to the timeline required for the 2022/23 accounts shown above.
- 4.10 The 2023/24 AGS process will align with the timetable shown in the Statement of Accounts Update paragraph 3.8.1 with projected publication by 31<sup>st</sup> October 2024.
- 4.11 It is intended that the production of the AGS 2022/23 and 2023/24 will be combined following the process of previous years as closely as possible, whilst aiming to incorporate the key points from the new CIPFA guidance, and the timetable is given at Appendix 1. The process will be managed by the Corporate Governance Steering Group (CGSG) as endorsed by the Executive Board on 20 May 2008 and which consists of senior colleagues representing Council services. It will incorporate



assurances provided through the Together for Nottingham Plan and responses to IAB instructions. In addition, a set of assurances will be obtained from the Leader of the Council, key colleagues including Corporate Directors, individuals with statutory roles, significant group companies and significant partnerships.

- 4.12 The directly acquired assurances will be supplemented by other governance related information extracted from Council policies and strategies, internal and external assurance providers, Council, Board and committee minutes.
- 4.13 In addition the AGS for 2023/24 should include the overall conclusion of an assessment of the organisation's compliance with the principles of the Financial Management Code and compliance with CIPFA's Role of the CFO in Local Government. This is a self-assessment completed by the Finance Division comparing the Council's financial management arrangements to the principles set out by CIPFA. The Audit Committee should consider compliance with the FM Code and the role of the CFO and how compliance is achieved when reviewing the AGS.
- 4.14 The final AGS will be an account of the Council's governance arrangements in a format addressing the principles embodied in the governance best practice and local arrangements. It will reflect any failings identified and note actions put in place to address them. This will be discussed by members of Corporate Leadership Team and will be presented to the Audit Committee for consideration and approval, and the document, when approved, will be published with the City Council's Statement of Accounts.

## **5. Key Governance Changes**

### **Government Intervention**

- 5.1 The Council has continued to respond to the Improvement and Assurance Board (IAB) on its delivery against each Instruction as the deadlines have become due. In addition there have been IAB meetings held throughout the year and individual contacts between IAB members and the Council. These interactions and response against the Instructions have informed the quarterly reports that the IAB provide to DLUHC on the Council's progress.
- 5.2 On the 13<sup>th</sup> December 2023 the Council was informed that the Secretary of State for Levelling Up, Housing and Communities was minded to increase intervention in Nottingham through the appointment of commissioners. The Council and other stakeholders were invited to make representations with regards to the decision by 2<sup>nd</sup> January. Subsequently the IAB issued two further instructions regarding the budget process for 2024/25. The government approved Exceptional Financial Support in principle, allowing the Council to balance the budget for 2024/25 in March 2024.
- 5.3 On the 22<sup>nd</sup> February 2024 the Secretary of State implemented an intervention package replacing the Improvement and Assurance Board with commissioners led by Tony McArdle with new directions allowing the commissioners to exercise a broad range of functions associated with governance, improvement and strategy.

### **External Auditors Statutory Recommendation**

- 5.4 Grant Thornton issued a statutory recommendation on 9th February 2024, using the external auditor's powers under section 24 schedule 7 of the Local Audit and Accountability Act 2014, that further savings proposals are developed. The Council has accepted the recommendation.

## **Section 114 (3) Report Issued in 2023**

- 5.5 On 29<sup>th</sup> November 2023 the Corporate Director of Finance and Resources (Section 151 Officer) had issued a Section 114 (3) Report, which immediately stopped all new activity which could incur expenditure, unless it gained explicit approval by the Section 151 Officer.
- 5.6 City councillors met on Monday 18 December 2023 and unanimously agreed all of the recommendations in the Chief Executive's report to Full Council.

### **Section 114 (2) Report Issued in 2021**

- 5.7 In December 2021 the S151 Officer and Monitoring Officer issued legal notices advising that the Council had identified transactions involving funds from the Council's Housing Revenue Account (HRA) being incorrectly credited to the General Fund for all council services, which was unlawful. Further independent investigation continued resulting in the CIPFA and Penn reports in spring 2022 detailing the issues, and a plan to complete reimbursement of the HRA in the 2023/24 budget report.

### **Financial Controls Remediation**

- 5.8 As a result of the CIPFA and Penn reports the external auditor determined that a high audit risk of management override existed, which necessitated further assurance from the Section 151 Officer in respect of a number of key financial processes. Ernst & Young (EY) were procured to carry out a review, and a preliminary report identified gaps compared to best practice in some areas. A further concluding report on the Establishing Grip phase of EY work is yet to be reported.

### **Together for Nottingham Plan**

- 5.9 The Together for Nottingham Plan addresses the significant issues identified in previous Annual Governance Statements and sets out a structure, priorities, accountabilities and milestones for improvement incorporating and developing the recommendations made in the Public Interest and Non-Statutory Review reports. The Audit Committee has received updates on progress of the themes of the Together for Nottingham Plan and the IAB instructions during the year.

### **External Auditor's Value for Money Report**

- 5.10 Grant Thornton's Annual Report on Nottingham City Council for the 3 years 2020/21, 2021/22 and 2022/23 was issued in March 2024. It sets out Grant Thornton's judgment of significant weakness in each of these years for

- financial sustainability and financial governance,
- governance, and
- improving economy, efficiency and effectiveness

- 5.11 The report highlights that whilst some improvements have been made, for all 11 previously highlighted key recommendations further work is required. The 3 areas above are factors within these key recommendations covering

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Financial sustainability including savings schemes, business case development, and budget management and forecasting</li> <li>• Medium Term Financial Plan</li> <li>• Recruitment and retention (including pay policy and interim / permanent mix)</li> <li>• Budget approach and finance skillbase</li> </ul> | <ul style="list-style-type: none"> <li>• Company arrangements</li> <li>• Companies' strategic purpose, financial needs and risk</li> <li>• Statutory accounts preparation</li> <li>• Prioritisation of external audit query resolution</li> <li>• HRA ringfence and housing subsidiary companies</li> <li>• Children's services</li> </ul> |
|---|--|

- Procurement and contract management

5.12 A further key recommendation has been made to engage fully and at pace with the improvement and intervention plans developed by Commissioners.

5.13 The report concludes that significant work is still needed and concerns remain in respect of

- financial sustainability
- workforce strategic management
- the effectiveness of internal control.

### **Significant Issues**

5.14 Changes in governance reported to Audit Committee that meet the definition of a significant issue (as set out below) will be reviewed and encompassed in the updated AGS (see 4.4 for timelines). However it is appropriate to recognise here that relevant colleagues have confirmed that there are now no active concerns related to Nottingham Castle Trust and Protecting People from Covid-19.

5.15 In ascertaining the significance of the control issues, CIPFA defines a series of factors to be considered, as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- The issue has led to a material impact on the accounts.
- The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
- The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

## **6. Background papers other than published works or those disclosing exempt or confidential information**

6.1 None

## **7. Published documents referred to in compiling this report**

- Accounts & Audit Regulations 2015
- CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2016
- CIPFA Role of the CFO in Local Government
- CIPFA Bulletin 06 - Application of the Good Governance Framework 2020/21
- CIPFA – Audit Committees: A practical guide for Local Authorities and Police 2022
- CIPFA – Developing an effective assurance framework in a local authority 2023
- LGA – Draft improvement and assurance framework for local government 2023
- IIA - The IIA's Three Lines Model
- Executive Board 20 May 2008 - Local Code of Corporate Governance
- Nottingham City Council - Draft Statement of Accounts 2021/22, Draft Statement of Accounts 2020/21

- Interim Annual Governance Statement 2021/22, Interim Annual Governance Statement 2020/21
- NAO – Local Authority Governance (15<sup>th</sup> January 2019)
- Report to all Councillors of Nottingham City Council under s.114(2) of the Local Government Finance Act 1988 (15<sup>th</sup> December 2021)
- Report made under part VIII s.114(3) of the Local Government Finance Act 1988 (29<sup>th</sup> November 2023)
- DLUHC Letter to Nottingham City Council Chief Executive 22 February 2024

## Appendix 1 AGS Process Timelines

Action	Feb 2024	Mar 2024	Apr 2024	May 2024	Jun 2024	Jul 2024	Sep 2024	Oct 2024	Jan 2025	Feb 2025
Meet Directors, Departmental Management Teams and Company Representatives										
Plan the process for obtaining assurances from Corporate Directors and other significant										
Review Significant Issues and take update to Audit Committee										
Set out AGS process and timetable and report to Audit Committee										
Update to Corporate Governance Steering Group										
Confirm significant partners and groups										
Revise and circulate questionnaires to obtain assurance for 2022/23 & 2023/24										
Produce Internal Audit Annual Report with Head of Audit opinion										
Review extent to which the Council complies with the Local Code										
Revise AGS Process to align to new Leadership Assurance Framework										
Review of Assurance sources available										
<ul style="list-style-type: none"> <li>• Partnership arrangements</li> <li>• Corporate Director Assurance Statements</li> <li>• Statutory Officers - S151 Officer, Monitoring Officer, Head of Paid Service</li> <li>• Other sources of assurance including: <ul style="list-style-type: none"> <li>o Key officers, including those with responsibility for Internal Audit, Performance, Risk and HR</li> </ul> </li> </ul>										
Draft AGS, outlining the governance environment and any significant governance issues										
Take report to Audit Committee as the committee responsible for monitoring compliance with the Local Code										
Consider Issues from External Audit Annual Letter										
Report Final AGS to Audit Committee with Statement of Accounts										

Note that under The Accounts and Audit (Amendment) Regulations 2024 (draft Statutory Instrument being consulted on at time of writing) the final date for publishing accountability statements for 2023/24 including the AGS is 31st May 2025. It is expected that completion will be in line with draft statement of accounts.

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