

# Nottingham City Council

## Audit Committee

**Minutes of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 30 June 2023 from 10.30 am - 1.40 pm**

### Membership

#### Present

Councillor Samuel Gardiner (Chair)  
Councillor Sulcan Mahmood (Vice Chair)  
Councillor AJ Matsiko (Items 1-16)  
Councillor Graham Chapman (Items 1-13)  
Councillor Michael Edwards  
Councillor Andrew Rule (Items 1-16)  
Councillor Naim Salim  
Councillor Adele Williams

#### Absent

### Colleagues, partners and others in attendance:

Councillor Steve Battlemuch	- Portfolio Holder for Skills, Growth, Economic Development and Property
Ross Brown	- Corporate Director for Finance and Resources
Michael Clifford	- EY Ltd
Beverley Gouveia	- Development and Disposals Manager
Titu Hayre-Bennett	- Head of Transformation
Nicki Jenkins	- Director of Economic Development and Property
Shabana Kausar	- Director of Finance
James Lavender	- Governance Officer
Neil McArthur	- Head of Companies and Commercial Oversight
Steve Oakley	- Head of Commissioning and Procurement
Gareth Sayers	- Development and Change Manager
Annabel Scholes	- Interim Director of Finance
Shail Shah	- Head of Audit and Risk
Andrew J Smith	- External Auditor, Grant Thornton
Malcolm Townroe	- Director of Legal and Governance

### 1 Appointment of Vice Chair

**Resolved to appoint Councillor Sulcan Mahmood as the Vice Chair of Audit Committee for the municipal year 2023/24.**

### 2 Apologies

None.

### 3 Declarations of Interests

None.

#### **4 Minutes**

The minutes of the meeting held on 31 March 2023 were confirmed as a correct record and signed by the Chair.

#### **5 Dates of 2023-24 meetings**

The Committee agreed to meet at 10:30am on the following Fridays:

- 28 July 2023
- 29 September 2023
- 24 November 2023
- 23 February 2024
- 26 April 2024

#### **6 Financial Controls Assessment**

Councillor Audra Wynter, Deputy Leader and Portfolio Holder for Finance, Ross Brown, Corporate Director for Finance and Resources, Annabel Scholes, Interim Director of Finance and Shabana Kausar, Director of Finance, presented the report which outlined the initial findings of a report commissioned by the Council and conducted by EY Ltd into the effectiveness of internal controls within the Council's financial processes and to provide risk management assurances to the Audit Committee and the External Auditor. Additional comments were provided by Michael Clifford, a representative of EY. The following information was highlighted:

- (a) the Control Environment is the set of standards, processes, and structures that provide the basis for carrying out internal controls across an organisation. These internal controls can consist of policies, procedures, and technical safeguards that protect local authority assets by preventing and detecting errors and inappropriate actions. They are essential for the accomplishment of goals and objectives, providing reliable financial reporting and ensuring compliance with applicable laws and regulations;
- (b) all Councils are required by legislation to appoint a s151 Officer, who is a professionally qualified and experienced person who makes arrangements for the proper administration of that Council's financial affairs;
- (c) the Council developed a recovery and improvement plan as part of its response to the 2020 Non-Statutory Review. As part of the Medium-Term Financial Strategy workstream, work was undertaken to gain assurance on financial management. From the work, it became apparent that the Council had breached the ring-fenced requirement for the Housing Revenue Account (HRA), which is unlawful. As a result, the Corporate Director for Finance and Resources commissioned this review;
- (d) EY, who have undertaken this review, have examined six ring-fenced areas that analyse policies, procedures, financial records, data and samples of historic financial transactions for evidence of effective control measures. The six ring-fenced areas examined are as follows:

- Dedicated Schools Grant (all four blocks);
  - Better Care Fund – including Disability Facilities Grants;
  - Licensing income;
  - Parking, Traffic Regulation and bus lane enforcement income;
  - Transforming Cities Grant;
  - Selective Licensing;
- (e) EY's evaluation took place over a three-month period, during which they requested procurement contracts, receipts and bank statements. They also interviewed council colleagues;
- (f) there are a number of very serious concerns identified from the results of the transactional testing for the period 2019 to 2022. EY observed a weak control environment, ineffective systems, associated management information and a culture not focused on compliance;
- (g) further areas of concern include ineffective audit trails, issues across samples such as transaction classification and approvals, limited preventative and detective controls, weaknesses in policy adherence and knowledge, and controls being circumnavigated through management override;
- (h) the challenges within those practices have continued into the 2022/2023 financial year;
- (i) the following conclusions are drawn from the assessment:
- an urgent intervention is required in establishing interim controls to avoid future inappropriate financial activity;
  - ineffective systems and processes led to a culture of non-compliance with financial procedures which needs to be addressed;
  - effective IT systems need to be implemented to strengthen the control environment;
  - improving skills and capabilities amongst officers to support effective financial management will improve the culture of compliance;
  - the process of improvement will be a long-term activity for the Council;
- (j) more needs to be done in terms of the governance and transparency of financial controls and transactions;
- (k) examples of systematic weaknesses include the failure of the system to archive previous records of transactions, hence leaving officers unsupported when they needed to take action;
- (l) there is evidence of insufficient record keeping in the finance journals;
- (m) since the EY work was commissioned, the Council has been issued with two instructions from the Improvement and Assurance Board (IAB) which link to this work. The first instruction is the resolution of all outstanding matters relating to the 2019/20, 2020/21 and 2021/22 audit of accounts. The second instruction is to deliver a Financial Improvement Plan (FIP), covering the key

elements identified by the IAB to provide assurance in respect of finance and accounting;

- (n) in response to the findings, the control weaknesses have been mapped onto the existing FIP and an assessment of capacity to deliver at pace has been completed. A remediation project has been scoped and commissioned to deliver a 12-week focused controls remediation response that will work alongside the Council's FIP resources;
- (o) Phase 1 of the remediation work will ensure the Council has the essential basics. Further investment in systems will be required to provide the most effective control environment, where the system will deliver record actions and the supporting evidence required for each financial transaction;
- (p) the aim of these remediation measures will be to move the Council from an assurance position to a high assurance position with regard to its financial processes;
- (q) the Corporate Director for Finance and Resources will have weekly meetings and reports upon the progress of the FIP and the remediation project;

During the discussion and in response to questions from the Committee, the following points were raised:

- (r) all the transactions which were examined by EY showed that the funds were spent correctly. The work undertaken on the FIP will not impact on the 2024/25 budget planning, but it will have an impact on the outturns for the 2023/24 financial year;
- (s) the Portfolio Holder for Finance has fortnightly briefings on the FIP and is confident that the officers will deliver the remediation measures on time;
- (t) the Council's HR and Procurement Teams are looking at skilling up members of staff and acquiring additional resources to put the Council on a strong footing to address the financial control issues. Additional training sessions will take place to change the culture by emphasising the importance of financial controls;
- (u) risk registers identify the weaknesses in system implementations;
- (v) the Audit Committee can use its remit to request a standing item for future meetings on the progress of the remediation measures within the five areas identified within the report;
- (w) a Cardiff Checks audit is effectively a "cradle to grave" audit of all aspects of procurement and finance by selecting a small number of invoices as a random sample which is then reviewed by members of the Audit Committee. These were stopped around fifteen years ago as they are a resource intensive exercise which yields limited results;

- (x) smaller task and finish groups or panels can be established to regular monitor the FIP and remediation works;
- (y) the Audit Committee can request for a Chartered Institute for Public Finance and Accountancy (CIPFA) assessment on itself to judge its effectiveness in financial audit matters.

**Resolved to:**

- 1. note the outcomes of the controls review, specifically the findings of the Controls Assessment underpin a conclusion that NCC is operation with a considerably weakened control environment which is not fit for purpose in allowing a Local Authority to enact effective financial stewardship;**
  - 2. note the immediate next steps that the Council has taken to address the findings;**
  - 3. receive future updates on the remediation work through the FIP reporting;**
  - 4. the remediation work becomes a standing item for future meetings;**
  - 5. establish a sub-group that can assist the remediation work;**
  - 6. establish new panels, the remit of which will be established at a future meeting;**
  - 7. undertake a CIPFA Self-Assessment on the Audit Committee.**
- 7 Regular monitoring of previous years' statement of accounts and finance improvement plan**

Shabana Kausar, the Director of Finance, and Andrew Smith, External Auditor at Grant Thornton Ltd, presented an update to the Committee on the progress the previous years' statement of accounts and the FIP. They highlighted the following information:

- (a) eight improvement initiatives have been developed to cover the IAB's recommendations. These include better financial leadership, embedding professional practices, reconciling spending, regular monitoring of financial journals and improvements in business processes;
- (b) a revised version of the FIP has been presented to the IAB;
- (c) the 2019/20 statement of accounts will be ready by mid-August. The final checks are taking place and Grant Thornton are making their additional amendments;
- (d) the 2020/21 statement of accounts are awaiting the professional feedback from Grant Thornton;

- (e) the 2021/22 accounts require further feedback;
- (f) the draft 2022/23 outturn will be presented to the Executive Board on 18 July 2023;
- (g) each audit year has to be reviewed by Grant Thornton in turn. The estimated deadline for all statement of accounts is towards the end of 2024. The Chair of the IAB is aware of this deadline;

During the discussion and in response to questions from the Committee, the following points were raised:

- (h) it usually takes six months to audit the annual accounts of a city council the size of Nottingham. There is limited capacity within the Council to undertake a three-month audit within two months;
- (i) the Council will be able to meet the obligations of providing an audit of annual accounts and it does allow time for Grant Thornton to take an independent audit of those accounts. The 2020/21 financial accounts are 60% complete and the 2021/22 financial accounts will be addressed in September;
- (j) financial journals are now being submitted for authorisation, so those financial controls are now in place;
- (k) additional training and advice will be given to budget managers around financial controls.

**Resolved to note the contents of the update.**

## **8 HR and EDI Annual Assurance**

Titu Hayre-Bennett, Head of Transformation, and Gareth Sayers, Development and Change Manager, presented the report to update the Committee on the Council's progress in relation to Equality, Diversity and Inclusion (EDI), wellbeing, pay and sickness management. They highlighted the following information.

- (a) the work undertaken by the HR department is tied to the Together for Nottingham Plan and the IAB requirements;
- (b) with the new approach to Individual Performance Reviews into its second year, the number of managers setting objectives for their staff and employees recording them had increased;
- (a) the number of colleagues completing mandatory learning has increased from a low base of 71% in 2019/209 to 96% in 2022/23;
- (b) the Council's Leadership Development Programme has seen 87% of managers complete the Leading and Managing Together programme. Phase 2 of the programme will focus on embedding behavioural change and producing results;

- (c) the new Colleague Workforce Development programme has seen 1,822 colleagues attend workshops, 4,950 complete 21,000 e-learning modules and 83% colleagues completing their Best Value eLearning. As part of phase 2, further modules will include digital skills, managing workplace projects and collaboration/partnership working;
- (d) talent development programmes have been delivered to upskill Council colleagues in business analysis and project management;
- (e) participation from Councillors in the Councillor Development Programme has increased year on year since 2019. A six-week induction for all Councillors following the May 2023 Local Elections has seen fourteen sessions for Councillors delivered over a six-week period;
- (f) in January 2023, the Council passed a motion to consider Care Experience as a protected characteristic. The next step involves implementing the Care Leavers action plan and equality impact assess the Council's objectives and policies to determine the impact of changes on people with care experience;
- (g) the current EDI strategy is being reviewed with consultations and engagement exercises taking place with citizens and key stakeholders. An employee survey took place alongside a benchmarking exercise against other councils, including core city councils;
- (h) a specialist agency, Inclusive Employers, completed an audit of the Council's EDI strategy. The next steps are for the Corporate Leadership Team (CLT) to consider the key findings and recommendations for the new EDI strategy, which is due to launch in Autumn 2023;
- (i) the Council's inclusive initiatives include being a Disability Confident Employer, having achieved 'Leader' Status in 2022, Race at Work Charter; BSL Charter and the Stonewall Equality Index;
- (j) the casework numbers have increased from 170 per year in 2020 to 193 reported in 2022/23;
- (k) during the COVID-19 Pandemic, there was a moratorium on disciplinaries which was agreed by the Council with the trade unions;
- (l) the Disciplinary Policy and associated guidance has been reviewed. Subject to final negotiations with the trade unions, it is anticipated that this will be finalised by the end of July and will be scheduled for approval at Central Panel;
- (m) for the causes of sickness absence, cough, colds and flu was the primary absence in 2022/23. In terms of Full-Time Equivalent (FTE) days lost, the higher number of days of absence was due to stress, depression and mental health;

- (p) mental health and wellbeing resources are being provided to the Council's occupational health service, as well as specialist advice on complex cases, such as trauma;
- (q) proposals for revision to the Council's Pay Policy and funding provisions, as approved by the Appointments and Conditions of Service (ACOS) Committee and Executive Board, are currently subject to consultation and negotiation with the Council's recognised trade unions, with a view to securing a collective agreement;

During the discussion and in response to questions from the Committee, the following points were raised:

- (r) the EDI Audit Report can be shared with the rest of the Committee;
- (s) the revised pay grades are factored into the Council's current budget for 2023/24;
- (t) the Council is aiming to build support for Carers into the EDI Strategy, but more needs to be done to recruit staff from a variety of different social backgrounds;
- (u) departments can use needs assessments to identify skills required for roles within their own departments.

**Resolved to:**

- 1. take assurance in the HR activity as outlined within the report;**
- 2. circulate the EDI Strategy Audit Report by Inclusive Employers Limited amongst the Audit Committee.**

**9 Together for Nottingham Theme 2 - Asset Management**

Councillor Steve Battlemuch, the Portfolio Holder for Skills, Growth, Economic Development and Property, Nicki Jenkins, Director of Economic Development and Property, and Beverley Gouveia, Development and Disposals Manager, presented a report setting out the progress made on implementing Theme Two of the Together for Nottingham plan, which was the associated asset rationalisation programme. They highlighted the following information:

- (a) the Council owns over 3600 property assets, with an asset value of over £1bn. These are split over the General Fund, the Housing Revenue Account (HRA) and the Bridge Estate. These properties can be categorised as operational, commercial, investment, and community;
- (b) the Asset Rationalisation Programme aims to generate sufficient capital receipts by selling Council-owned property assets to meet the current commitments within the capital programme and reduce levels of borrowing, therefore the Council needs to:



- accelerate the sale of those properties currently declared surplus and on the programme;
  - increase the number of assets for disposal onto the programme; and
  - provide assurance on the way in which assets are sold;
- (c) the first two years of the plan achieved a level of capital higher than forecast, however the economic shocks experienced in the autumn of 2022 and a delay in the sale of two high-value assets saw a reduction in the forecast mid-year;
- (d) within the eleven actions of the Assessment Management Plan, eight actions are complete and three are still in progress. Overall the plan is still rated as 'amber' on the Theme 2 - Asset Management Risk Register (see Appendix 2 of the report) due to the need to develop a forecast for the duration of the Council's Medium-Term Financial Plan (MFTP);
- (e) the Council has received £56m in Capital Receipts to date from asset disposal;
- (f) the future years forecast gives a current total pipeline value of £28m, which when risk adjusted comes to £13m;
- (g) the three methods of asset disposal are either selling the properties at auction, on the market, or through special purchase;
- (h) the Theme 2 - Asset Management Risk Register and forecasts are monitored and adjusted where necessary on a monthly basis;
- (i) a review of high value and operational assets has begun to identify additional properties to expand the pipeline over time;
- (j) the Corporate Landlord Transformation Programme brings together the management of all property land and assets into one centralised function, except schools, HRA residential properties, car parks, and markets. The second phase of the programme requires the confirmation of wider assets within services to transfer into the Corporate Landlord function;
- (k) the Portfolio Holder for Skills, Growth, Economic Development and Property is awaiting a handover from the Leader of the Council regarding the Corporate Landlord arrangements and will take over the Asset Rationalisation Board;
- (l) income generation from asset disposal is key to funding the Council and its programme delivery;

During the discussion and in response to questions from the Committee, the following points were raised.

- (m) a review into the methodology of how assets are valued will take place to ensure the Council gets the best value for the disposal of assets. There have been examples of where properties have not been disposed of due to the expected value being below what the Council expected;

- (n) the Council will learn from the experiences of other local authorities which have suffered financial difficulties, but have not generated sufficient income from asset disposal to help pay off those debts;
- (o) there needs to be a distinction between the Council's Net Debt and the Gross Debt when making decisions around asset disposal.

**Resolved to take assurance in the governance and control measures in place to manage the risks identified within the programme.**

## **10 Together for Nottingham Theme 3 - Companies Update**

Neil McArthur, Head of Companies and Commercial Oversight, presented the report which updated the Committee on the work undertaken in implementing the IAB instructions relating to Theme 3 – Companies' Governance of the Together for Nottingham Plan. He highlighted the following information:

- (a) the Companies Governance Handbook Strategic Review will take place in the second of the year with the aim of completing the review by 31 March 2024;
- (b) out of the forty-two requirements across the six council-owned companies, only four requirements are outstanding;
- (c) the policy and process for board appointments has been agreed by the Executive and is being implemented. Councillor board members and the Chairs of each board have been informed of the new arrangements;
- (d) a recruitment process is underway and aims to report to the July meeting of the Companies Governance Executive Committee (CGEC) with recommendations for appointments to the boards;
- (e) a review is taking place into all subsidiary/non-subsidary companies and other commercial ventures which the Council has representation at board level as a trustee or grants funding to. Each of the forty entities fit into one of the following five definitions:
  - where the Council has a controlling interest;
  - where the Council may not have ownerships or minority ownership, but does appoint representatives;
  - where the Council has no ownership or representatives, but does have strong associations, for example, they provide grants;
  - where the Council is engaging with liquidators;
  - Dormant non-trading entities which the Council owns to be closed and removed from the register;
- (f) the criteria of the review of the Shareholder Unit is set out in the Companies Governance Handbook. The evaluation of the unit may wish to recommend the recruitment of permanent members of staff to stabilise the work of the team. The review aims to be completed by 30 September 2023;

- (g) a review into the Council Companies' business and financial reporting will take place with the aim of completing the review by the end of March 2024.

**Resolved to note the contents of the report.**

## **11 Exemption from Contract Procedure Rules quarter four 2022/23**

Steve Oakley, Head of Contracting and Procurement, presented the report detailing the exemptions from Contract Procedure Rules that had been approved during quarter four of 2022/23, and the actions being taken to ensure that exemptions only occur when there is a sound rationale for doing so. He highlighted the following information:

- (a) since the original audit of Procurement Dispensations in 2021, there is now an average of 5.1% exemptions from contract procedure rules per quarter;
- (b) the highest amount awarded in quarter four through exemption from contract procedure rules is to the Lovell Partnerships which is taking part in the Eastgate Phase 1 and 2 housing developments. This is the result of the previous construction company going into insolvency;
- (c) the Commercial Oversight Board has been established for officer scrutiny of all commercial activity, procurement, commissioning and contract management. Exemptions were discussed at the Board in May 2023;
- (d) the New Commercial, Procurement and Contract Management handbook is available on the Intranet. Contract Management Training has been developed and is live on the Learning Zone;

During the discussion and in response to questions from the Committee, the following points were raised:

- (e) all Councils have exemptions from contract procedure rules. There will always be some requests for exemption from Contract Procedure Rules as not all contracts can be let through a formal tendering or quotation process for various reasons, for example, where there is only one supplier for technical reasons, such as Microsoft being used for IT purposes;
- (f) the Commercial Oversight Board is chaired by the Corporate Director for Finance and Resources;
- (g) when boiler servicing was taken over by the Council after the close of Robin Hood Energy, the services were absorbed within the Council's contractual procedures;
- (h) changes to audit reporting will mean that this item may be an annual report to the Committee in future.

**Resolved to note the number of exemptions from Contract Procedure Rules during quarter four of 2022/23 and the actions being taken to ensure that**

**contacts were awarded in line with Contract Procedure Rules, and exemptions only occurred where there was a sound rationale for approving that exemption.**

## **12 Audit Committee Annual Work Programme**

Shail Shah, Head of Audit and Risk, presented the Annual Work Programme to the Committee. He informed the Committee that it was subject to change across the municipal year.

The Committee noted the Annual Work Programme.

## **13 Recommendation Tracker**

The Committee noted the Recommendation Tracker.

(At 12:54pm, the Committee agreed to a five minute comfort break. The meeting started again at 13:02pm).

## **14 Exclusion of the Public**

The Committee decided to exclude the public from the meeting during consideration of the remaining agenda items 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 paragraphs 1, 3 and 5 of Part 1 of Schedule 12A of the Act.

## **15 Exempt minutes**

The exempt minutes of the meeting held on 31 March 2023 were confirmed as a correct record and signed by the Chair.

## **16 Financial Controls Assessment - Exempt Appendices**

The information contained within the exempt appendix was discussed, details of which are set out in the exempt minutes.

## **17 Recommendation Tracker - Exempt Items**

The Committee noted the exempt items on the Recommendation Tracker.