

Nottingham City Council

Audit Committee

Minutes of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 29 September 2023 from 10.30 am - 12.05 pm

Membership

Present

Councillor Samuel Gardiner (Chair)
Councillor Sulcan Mahmood (Vice Chair)
Councillor AJ Matsiko
Councillor Michael Edwards
Councillor Andrew Rule
Councillor Naim Salim

Absent

Councillor Graham Chapman
Councillor Adele Williams

Colleagues, partners and others in attendance:

Ross Brown	- Corporate Director for Finance and Resources
Titu Hayre-Bennett	- Head of HR and Organisational Development
Shabana Kausar	- Director of Finance
James Lavender	- Governance Officer
Lucy Lee	- Director of Customer Services
Ceri Morgan	- Programme Manager – EMSS and Oracle
Simon Parsons	- Audit Manager
John Slater	- Group Governance and Audit Assurance Manager
Andrew Smith	- External Auditor, Grant Thornton
Councillor Audra Wynter	- Portfolio Holder for Finance and HR

32 Apologies

Councillor Graham Chapman – personal
Councillor Adele Williams – personal

33 Declarations of interest

None.

34 Minutes

The minutes of the meeting held on 28 July 2023 were confirmed as an accurate record and signed by the Chair.

35 Statement of Accounts Progress Update

Shabana Kausar, Director of Finance, presented the report which updated the Committee about the progress the Council is making with its statement of accounts relating from 2019/20 to 2022/23. The following information was highlighted:

- (a) the Improvement and Assurance Board (IAB) has issued a directive that the outstanding issues with all accounts from 2019/20 to 2021/22 should be resolved by 30 September 2023;
- (b) good progress has been made with the draft accounts for 2019/20 and 2020/21. The draft accounts for 2019/20 were delivered to Grant Thornton in July and the updates to the draft accounts for 2020/21 are approaching completions;
- (c) upon review of the 2019/20 draft accounts Grant Thornton raised new queries around the Council's external property valuations. This incorrect valuation of these assets has resulted an adjustment to the 2018/19 opening balances;
- (d) the clarification of Grant Thornton's queries impacted on the progress on the accounts for three weeks, and has compromised the Finance Team's ability to produce a draft Statement of Accounts for 2021/22 by 30 September 2023, as per the IAB's instructions;

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

- (e) there is a degree of reliance on external valuers to complete and report revised valuations;
- (f) adjustments to accounts are being completed in parallel across financial years and mostly relate to fixed assets, plant and equipment;
- (g) the Committee are assured that mid-October is an achievable deadline for the completion of the draft 2021/22 accounts, subject to no new queries being raised.

Resolved to note the report.

36 Financial Improvement Plan Update

Councillor Audra Wynter, Portfolio Holder for Finance and HR, Ross Brown, Corporate Director for Finance and Resources, and Shabana Kausar, Director of Finance, presented the report on the Council's Financial Improvement Plan (FIP) activity undertaken to the end of August 2023 and the planned activities to the end of October 2023. The following information was highlighted:

- (a) since the last report to the Committee, progress has been made on the following key activities:
 - the finalising of the statutory accounts for 2019/20 – 2021/22;
 - internal recharges and reallocations of policy;
 - the development of the Financial Accountabilities Framework;
 - Establishment Control;
 - FIP actions mapped on the EY remediation project;

- (b) the Council now has its draft 2019/20 Statutory Accounts ready for external audit certification and will have draft set of accounts for 2020/21 ready for audit by September in line with the IAB instructions (please read Minute 35 for further details);
- (c) a draft recharge framework document containing guidance on the definitions of a recharge, reallocation and apportionment has been produced. A master document has also been produced to ensure that each recharge or reallocation has a clear rationale, includes overheads only where appropriate, is agreed by both parties and correctly coded;
- (d) the draft Financial Accountabilities Framework will act as a guide for officers to the key roles and responsibilities that support excellent financial management within the Council, helping officers in understanding their roles and how they support others. It is based on the widely used RACI (Responsible, Accountable, Consulted and Informed) methodology;
- (e) PwC LLP work for the Establishment Control project chaired by the Director of HR and EDI is due to complete at the end of September. The project is a key activity in supporting delivery of the HR improvement Plan and aligns to the FIP;
- (f) PwC LLP have been commissioned for a 12-week period to support the Council to get to a single version of the truth in relation to their staffing baseline. This is critical to understand the true baseline position for transformation. This work focuses on three key areas:
 - a reconciliation of the establishment baseline across all Council service areas to get a single version of the truth;
 - simplifying and communicating processes that are associated with changes to establishment to enable changes to happen in a more timely and accurate manner;
 - developing and rolling out a dashboard to support Budget Holders with establishment reporting and monitoring;
- (g) work is ongoing to ensure that data going into the Oracle Fusion system is accurate;
- (a) at the end of August 2023, all 39 remediation activities identified for the Financial Controls Remediation Project have agreed controls in place. 38% have been fully implemented including training and monitoring by the first week of September with 62% in process of being implemented over September and expected to be fully implemented by the end of the first week of October;
- (b) Additional activities in Appendix 1a are included and implemented since last reported in July;

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

- (j) there is a detailed communications strategy for each of the implemented actions for the FIP to instruct officers in these processes;
- (k) all remediation activities of the Financial Controls Remediation Project will be implemented by the next progress report in November;
- (l) EY's work with the Finance Team ends today. 'Health check' Key Performance Indicators (KPIs) have been designed by EY to be embedded within our processes. Post-implementation activity has also been agreed with guidance from EY;
- (m) the capacity of the Finance Team to manage finance controls is always a risk. The key to maintaining a high standard for the financial control environment is to how best to administer and report within the capacity that the Council's Finance Team possesses including through automated processes;
- (n) the overseeing of the system of the new controls will be led by the Finance Team. These are the basic controls and long-term and permanent solutions will be sought to improve the financial control environment;
- (o) no money has been misallocated. The financial controls improvement activity is not for identifying fraud or mismanagement; it is for strengthening the Council's own financial processes and adhering to best practice;
- (p) there is no related increase for the Council, to the cost of the use of Oracle Fusion which is shared with Leicestershire County Council through the East Midlands Shared Service (EMSS);
- (q) there should be no reason as to why deadlines within the FIP should not be met. Officers are working very hard to meet the IAB's requirements and meet the objectives of the financial control environment. The Council faces challenges in its finances partly due to general context of local government finance.

Resolved to note the report.

37 External Audit Update

Andrew Smith, External Auditor for Grant Thornton, delivered an update to the Committee on the work undertaken by Grant Thornton on the council's accounts. The following information was highlighted:

- (a) the audit of the draft 2019/20 accounts will close in the next couple of months subject to receiving land and building valuations and reperforming some work completed by EY. Grant Thornton have requested working papers of EY but are yet to receive them. This issue has been escalated to the Corporate Director for Finance and Resources and Director of Finance;
- (b) there are proposals currently being consulted on by the Government to put in place a backstop for old audits, which means that historic audits must be completed by a specific date. This may affect the 2021/22 and 2022/23

financial accounts, but the dates for when this backstop takes effect have not yet been confirmed. If these proposals proceed, they may impact on the opening balance sheet for 2023/24 and the level of audit work required for the 2023/24 audit and therefore also on its cost;

- (c) Councillors are reminded of the external audit report brought to the meeting in February setting out significant weaknesses in value for money including in respect of the Council's financial sustainability. Concerns remain high based on events in year including the projected overspend on period 2 monitoring and subsequent expenditure controls. The concerns will be raised with the Chief Executive;

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

- (d) Corporate Director for Finance and Resources and Director of Finance confirmed that they are happy that EY should share this information and that representations had been made to EY;
- (e) there will be no direct penalties or sanctions for organisations that do not have their accounts fully audited by the time they reach the backstop. However, there would be a cost arising from the extra work entailed in the 2023/24 audit of financial statements;
- (f) there is a predicted £26 million in year overspend for 2023/24. The Financial Intervention Package is aimed to reduce expenditure and some reductions in pressures have resulted. The Council continues to experience demand led pressures particularly in the costs of adult and children social care (ACSC) and homelessness;
- (g) most authorities are facing problems of demand led pressures with ACSC and homelessness. Arrangements are in place in some local authorities to control or offset those pressures;
- (h) the Council have put in a number of transformation programmes focussing on preventative measures. Transformation is lagging a little in terms of desired progress;
- (i) the Council's financial resilience, its ability to cope in year, is more limited. The ability to fund pressures through reserves has been depleted;
- (j) the direction of travel for all local authorities responsible for social services lead to reductions in terms of services of what local authorities can deliver.

Resolved to note the update.

38 Internal Audit Progress Update Q2 2023/24

Ross Brown, Corporate Director for Finance and Resources and Simon Parsons, Audit Manager, presented the report which enables the Audit Committee to gain

assurances and determine the focus for any interventions necessary. The following information was highlighted:

- (a) the opinion of the Head of Audit and Risk has been deferred;
- (b) the report provides a summary of the outturn for the year. The key systems covered do not show overall improvements in level of assurance compared to last year;
- (c) Payroll / HR remains an area of particular concern – a further report on No Assurance areas follows this report;
- (d) there is an unresolved lack of capacity due to uncompetitive pay grades, staff turnover, recruitment restrictions and long-term sickness within the Council's Internal Audit Team, which has limited the resources to provide assurances during 2022/23;
- (e) the report shows some improvements in areas as a result of the Audit Team's recommendations;

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

- (a) the Audit Team is currently discussing arrangements for audit of former Nottingham City Homes services with colleagues within the Housing division the committee will receive an update on this at the next meeting;
- (b) by working with colleagues to make sure the Audit Team's recommendations are implemented along with new systems, Council services and systems can be moved from Limited Assurances to Moderate, or even Significant Assurance;
- (c) there are examples of improvement plans in progress in areas of Limited or No Assurance (see Minute 39);
- (d) there is a further Internal Audit Progress update due to Committee in February 2024;
- (e) several Limited Assurance reports relate to the operation of financial controls by the Council using Oracle Fusion, however through the Financial Improvement Plan (FIP), improvements that are sustainable within existing capacity are being considered with EMSS in order to strengthen the financial controls environment;
- (f) the Oracle Fusion software can pick up in period payment duplications, but this system cannot check retrospective payments. The Council's Internal Audit Team can flag up any potential risk of fraud or duplication, data is examined to identify duplicate payments, however, this identifies potential of duplication and some payments can be similar amounts or the same service but are not necessarily duplicate payments, these require further review;

- (g) the financial controls environment would be improved by enforcing a policy of 'No purchase order, no pay' as a preventative control for duplication. Dashboards will be introduced for better oversight for purchase orders.

Resolved to:

- (1) note the outturn in respect of the 2022/23 Internal Audit Plan;**
- (2) note the progress reported in respect of high priority recommendations and determine any focus for intervention if considered necessary;**
- (3) note the areas marked as Limited and No Assurance and determine, if necessary, any interventions required;**
- (4) approve the 2023/24 Internal Audit Plan and note the progress to date.**

39 Internal Audit Report - No Assurance

Councillor Audra Wynter, Portfolio Holder for Finance and HR, Ross Brown, Corporate Director for Finance and Simon Parsons, Audit Manager, presented the report which outlines two areas, Appointeeships and HR/Payroll, which had received no assurance when internally audited. The following information was highlighted:

Simon Parsons provided an overview of the report on Appointeeships. The following information was highlighted:

- (a) the level of assurance provided by this report was No Assurance which is the lowest level of assurance;
- (b) the Appointeeships team used to sit within the Nottingham Revenues and Benefits (NRB) Ltd and transferred to Customer division in April 2023;
- (c) the Appointeeships team look after DWP benefits on behalf of individuals who cannot manage their financial affairs themselves under arrangements agreed with DWP;
- (d) Internal Audit reviewed the service following a data matching methodology after the Director of Adult Health and Social Care raised concerns around the monies recorded in the system, and how they were accounted for, including a particular concern regarding the balances of individuals who had passed away;
- (e) the review determined that the computer system in use was not fit for purpose as it could not provide a full record of income, charges, money paid out and balances;
- (f) as a consequence, monitoring was not effective and DWP benefits may have been overpaid because balances above DWP thresholds may not have been notified to DWP;

- (g) the Appointeeships team have limited powers to identify balances controlled by families or other parties relevant to DWP benefits and as a result are not always able to establish when DWP thresholds are reached;
- (h) the citizens funds were swept from the Council's income account straight into the Council's General Fund bank account rather than into separately identified sub-accounts. The money has not been misused, but there is a risk as it is more difficult to account for it;
- (i) Internal Audit will follow up the report later in 2023/24;

Lucy Lee, the Director of Customer Services, provided the following comments:

- (j) a number of actions have been developed to provide assurance on Appointeeship;
- (k) both Appointeeship and Deputyship services have come under the remit of Customer Services and they are being combined to provide better value;
- (l) the monies for individuals were kept in a ringfenced way. They should have been kept in individual accounts, but the digital system used by Customer Services did not allow for this. The Caspa system used for Deputyships does allow for individual accounts and will be used for Appointeeships;
- (m) a manual record is kept for Appointeeship accounts;
- (n) a search agency has been commissioned to find next of kin relating to deceased persons accounts. 15 have been found, whilst 16 have been unable to identify next of kin and money will be transferred to Crown Estate. The remaining 201 accounts are being searched for;
- (o) 12 cases above the DWP threshold have been identified. There are genuine reasons in each case and continuous monitoring is ongoing;

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

- (p) the implementation of the Caspa system will be delivered before the next audit update due at the Audit Committee meeting on 23 February 2024;
- (q) the original source of concerns about Appointeeships was the Deputyship team following a review of Deputyship accounts. The Appointeeship service was formerly managed by NRB. Whilst it was effectively managed, there was a lack of scrutiny within the company;
- (r) a full review of the Appointeeships service is being carried out as part of the team being brought within the Customer Services division;
- (s) the wider lessons from this should be that where the Council operates similar services, processes and systems should be aligned and teams grouped together to provide better value for residents, efficiency and transparency;

Simon Parsons provided an overview of the report on HR and Payroll. The following information was highlighted:

- (t) the level of assurance provided by this report was No Assurance which is the lowest level of assurance. The report comments on central ownership and accountability together with the overview and monitoring of policy, activity and controls within payroll;
- (u) Internal Audit have the same expectation of robust internal control and monitoring within central HR as within Finance, but the audit found weaknesses;
- (v) whilst there are systems in place to enable the Council to meet the Transfer of Undertakings Protection of Employment rights (TUPE) requirements for when external services are transferred into Council control, for example, the transfer of Nottingham City Homes staff into the Council. The necessary checks regarding inward TUPE transfers were not being undertaken;
- (w) there is evidence that pay progression due for some staff was not correctly automated leading to underpayment;
- (x) specific payments and employment checks require retained evidence the document management system appears no longer used and storage of such documentation is inadequate;
- (y) there are a number of data quality/integrity issues affecting the Oracle Fusion system reports;

Titu Hayre-Bennett, Head of HR and Organisational Development, and Ceri Morgan, Programme Manager for EMSS and Oracle, provided the following comments:

- (z) the HR Team understand the areas of concerns and a clear HR Improvement Plan has been developed;
- (aa) the Pay and Governance Board has been reinstated this week;
- (bb) issues around establishment control are being worked on by PwC;
- (cc) financial controls with regard to the housing service are being finalised;
- (dd) payroll controls are in place;
- (ee) challenges with HR payroll include the use of overtime contracts and people on two separate contracts;
- (ff) work with EMSS continues to new implement new systems of financial control;
- (gg) every current assignment has been reviewed as part of September update to pay tables;

(hh) there is a secondary check on pay variances which the new system can pick up. This was previously a manual process;

(ii) errors increased with self-service implementation during the pandemic;

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

(jj) the Council has around 7000 employees, so the HR Improvement Plan is vital for maintaining standards;

(kk) the Portfolio Holder confirmed that she was assured that the deadlines outlined within the HR Improvement Plan were realistic and achievable, subject to any issues which may arise.

Resolved to:

(1) note the findings of the two Internal Audit Reports;

(2) request a further follow up report in February on Appointeeship;

(3) request a further update report in February on HR & Payroll.

40 Audit Committee Annual Report

The Chair presented the Audit Committee Annual Report for 2022/23 which outlines the work undertaken by the Committee during the year, how the Committee has fulfilled its designated role within the Council's Constitution and how its work relates to its core responsibilities. It will be presented to a future meeting of Full Council. The role of the Committee should focus on where the corporate pressures are and review them.

Resolved to approve the Audit Committee Annual Report 2022/23.

41 Work Programme

The Committee noted the Work Programme.

42 Recommendation Tracker

James Lavender, Governance Officer, updated the Committee on actions completed in the tracker since the publication of the agenda for this meeting.

The Chair recommended implementing an assurance recording mechanism.

The Committee noted the Recommendation Tracker.