

# Nottingham City Council

## Audit Committee

**Minutes of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 23 February 2024 from 9.33 am - 12.45 pm**

### Membership

#### Present

Councillor Samuel Gardiner (Chair)  
Councillor AJ Matsiko  
Councillor Michael Edwards  
Councillor Sulcan Mahmood (Vice Chair)  
Councillor Eunice Regan  
Councillor Andrew Rule

#### Absent

Councillor Naim Salim  
Councillor Adele Williams

### Colleagues, partners and others in attendance:

Beth Brown - Head of Legal and Deputy Monitoring Officer  
Ross Brown - Corporate Director for Finance & Resources  
Beverley Gouveia - Head of Property  
Glenn Hammons - Interim Finance Lead – Technical Finance  
Shabana Kausar - Director of Finance  
Lucy Lee - Head of Customer Services  
Lee Mann - Strategic Director of HR and EDI  
Kate Morris - Scrutiny and Audit Support Officer  
Simon Parsons - Audit Manager  
Shail Shah - Head of Audit and Risk  
John Slater - Group Assurance & Audit Governance Manager  
Damon Stanton - Scrutiny and Audit Support Officer  
Councillor Audra Wynter - Deputy Leader and Portfolio Holder for Finance and HR

### 59 Apologies

Councillor Naim Salim – unwell  
Councillor Adele Williams – personal

### 60 Change in Membership

The Committee noted that Councillor Graham Chapman has been replaced by Councillor Eunice Regan.

### 61 Change of meeting date

The Committee agreed to change the date of the next meeting from 26 April 2024 to 22 March 2024.

## **62 Declarations of interest**

In the interests of transparency, Councillor Michael Edwards stated that he was a Director of 12 London Road Energy Supplies Company in relation to agenda item 12: Statement of Accounts Progress Update.

## **63 Minutes**

The Minutes of the meeting held on 24 November 2023 were agreed as a true and accurate record and signed by the Chair.

## **64 Work Programme**

The Committee noted the Work Programme.

## **65 Recommendation Tracker**

The Committee noted the Recommendation Tracker.

## **66 Change in Order of Agenda Items**

With the agreement of the Chair, there was a change in the order of agenda items as outlined within these Minutes.

## **67 Internal Audit Update including Limited Assurance Audits and High Priority Recommendations**

Simon Parsons, Audit Manager, provided an update on Q3 Internal Audit progress and provided objective assurance on whether Nottingham City Council (NCC) activities met their objectives.

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

- a) The Audit Manager provided assurance that by the end of the financial year the total number of planned days will be met in relation to Annex A and that the end of the financial year is the deadline.
- b) The Committee sought assurance about the increased frequency of reports giving no or limited assurance. It was explained that there are a number of reasons such as high staff turnover with poor handover affecting controls, and pressure on staff but ultimately it is a reflection as to where the Council is as an organisation.
- a) The Committee queried how an assessment of the control environment will be actioned. The Head of Audit and Risk confirmed that when he completes the Head of Audit opinion, assessments are made on the level of assurance and the general direction of travel of controls and comments will be made on the improvement or deterioration of the control environment with recommendations for improvement taken to Corporate Directors.
- b) An increase in no assurance reports was noted by the Committee and the Chair asked if all issued no assurance reports had been received. The Group

Assurance & Audit Governance Manager advised that further no assurance reports would be brought to the June meeting.

- e) A committee member requested further detail connected to claim periods seen in the Colleague Expenses audit and the Group Assurance & Audit Governance Manager confirmed that this was tested and a summary would be provided.
- f) There was a consensus that despite the increase in no assurance reports, this provides assurance that the internal systems and processes are working and able to identify and escalate risk to the Committee for oversight.

**Resolved:**

- 1) To note the progress in respect of the 2023/24 Internal Audit Plan.**
- 2) To note the progress reported in respect of high priority recommendations.**
- 3) To note the areas marked as Limited Assurance.**
- 4) To approve the update to 23/24 Internal Audit Plan and note the progress to date.**
- 5) To request for the Committee to receive a breakdown of the age of expense claims that have been approved as tested in the report Data Analytics Colleague Expenses.**

**68 Internal Audit Report - No Assurance**

Simon Parsons, Audit Manager, presented a report which provided an update on results of completed follow up reviews in respect of two 'no assurance' reports previously reported in September. The follow up into the no assurance reports issued into Appointeeship and HR/Payroll have been completed.

The Chair explained that the Committee would first consider Appointeeships. The following information was highlighted:

- a) The reason for the no assurance report was the system being used to manage finances is not fit for purpose. This system remains in place and thus a no assurance report still remains, however a number of steps have been taken to address the recommendations.
- b) Lucy Lee, Director of Customer Services, outlined actions taken against the recommendations of which 5/11 have been completed. The actions completed were within the Council's control and the remaining 6 are now in progress but have been hampered by external factors. The remaining actions involve setting up accounts through Lloyds Bank, which the Bank are only able to do at a rate of 10 per week.

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

- c) The Committee received assurance that at the Committee's meeting in June it will receive an update demonstrating that all of the outstanding actions will be completed.
- d) The Committee queried how a resolution is found to returning money of deceased persons to their families/next of kin. It was explained that an external finders agency had been commissioned to track down relatives. If they cannot be found it is absorbed back to the Crown Estate, the Council does not keep this money.
- e) The system used by NRB could not separate citizens monies from Council funds despite it being ringfenced. The Council was moving to a system that could separate funds but this was taking time due to external factors. It was, however, clarified that they were never merged and were in ringfenced accounts but the issue was within the limitations of the system.

In respect of HR/Payroll the following information was highlighted:

- f) The no assurance report still remains as there has not been enough evidence of progress to justify raising the assurance.
- g) Lee Mann, Strategic Director of HR and EDI, outlined progress made so far and how the service intends on addressing the recommendations. This includes the reestablishment of the Pay and Governance Board which will meet later in March to discuss progress, system functionality will be in place to monitor pay progression and ensure it is done automatically, and work is being done with East Midlands Shared Services to resolve issues with the Oracle Fusion HCM system including data integrity concerns, exception reports will be reviewed with EMSS and the process will be shared with Committee. A manual check will continue for a while to confirm the automatic progression is working. Establishment should be uploaded from mid-March and there will be a control process to ensure the rebase remains accurate. TUPE checks will be confirmed by the end of February – relevant posts have been identified through differences in grade structure

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

- h) It was estimated that around 40 individuals have been identified who have not progressed in pay, accounting for around £70,000. This was due to managers not manually progressing employees. The Committee received assurance that this would not affect equal pay liabilities and that there are existing controls in place to mitigate that.
- i) The issues around Oracle Fusion is an ongoing piece of work to identify where the problems exist such as within functional or user issues.
- j) The Committee queried the non-implementation of the establishment controls recommended by PWC. It was explained that it was a complex process that will take a significant length of time and involved three different systems attempting to manually triangulate a variety of information over a long period of time. It was recognised that this is a priority however there is only a certain amount of capacity to get this work done.

- k) The Committee received assurance that an update will be provided at June's meeting which will demonstrate significant progress made against the recommendations.

The Committee noted the update.

## **69 IAB Instructions: Theme 2 - Finance**

Shabana Kausar, Director of Finance and Deputy Section 151 Officer presented a report which provided an update on the Improvement and Assurance Board (IAB) finance instructions. The following information was highlighted:

- a) Even though the deadlines for many of the instructions have passed, it is a continuous exercise to promote good financial governance, financial sustainability and resilience, and was embedded in the Finance Improvement Plan.
- b) Instruction 1: approval a wholly realistic, and balanced, plans and budget. Members noted the processes undertaken for the approval of a balanced General Fund budget for 2023/24 and over the Medium Term Financial Plan (MTFP) period to 2026/27. The subsequent financial position for 2023/24, the issue of the S114(3) report, the application of Exceptional Financial Support (EFS), and the 2024/25 budget and MTFP process were all outlined.
- c) Instruction 2: establish and maintain a sound and prudent reserves policy and practice. Members noted that the Reserves Policy that applied to the financial year 2023/24 was agreed at Executive Board on 21 February 2023. The S151 Officer subsequently recommended that the Financial Resilience Reserve (FRR) be strengthened through the temporary repurposing of £20m of other earmarked reserves to strengthen resilience. Subsequent to the Council achieving this IAB instruction by deadline of 6 March 2023, the policy has been further reviewed and the financial resilience assessed as part of the Council's annual budget process and Section 151 Officer's assurance statement on the robustness of estimates and reserves. An updated Reserves Policy was presented to Executive Board on 13 February 2024. In light of a nil balance being left on the FRR as at 31 March 2024, a c£10m one-off contribution has been recommended through the General Fund budget to allow for this to be deployable in-year to provide financial resilience to manage in-year pressures.
- d) Instruction 3: deliver a fully resourced Capital Investment Plan. The Committee heard that following the issuance of the S114(3) report on 29 November 2023 and the Council requesting for EFS from DLUHC to balance the Council's budget in year (2023/24) and for 2024/25, a revised Capital Strategy, Voluntary Debt Reduction Policy and capital receipts prioritisation has been put forward for recommendation to City Council meeting on 4 March 2024.
- e) Instruction 4: early resolution of all outstanding matters relating to 2019/20, 2020/21 and 2021/22 audit of accounts. Members noted officers have responded to all outstanding audit queries for 2019/20 and a revised draft 2019/20 accounts have been provided to Grant Thornton (GT) on 8 November 2023. GT are undertaking their internal review and assurance

processes. The Council has produced draft accounts for 2020/21 and made significant progress with draft accounts for 2021/22 and 2022/23.

- f) Instruction 5: complete the financing of the £17 million misappropriation of funds relating to the HRA. The Committee heard that a budget provision has been set aside in the General Fund and a credit in the HRA from 2024/25 profiled over 8 years.
- g) Instruction 6: deliver the Financial Improvement Plan covering the key elements identified by the IAB. Members noted that a more comprehensive report on the FIP will be provided later in the meeting at item 11.
- h) Instruction 7: reinforce financial stewardship in providing resilience and sustainability through 2023/27. The Committee heard that CLT are proactively receiving and taking decisions in relation to financial governance. A budget gap of £172 million is forecast over the MTFP period to 2027/28 of which £41 million relates to 2024/25 and is assumed to be funded by EFS. Additional work is being done for officer proposed savings for the Council meeting in March.
- i) Instruction 8: bring forward a credible and risk assessed plan for additional pipeline of capital receipts linked to the implementation of the Corporate Landlord model. It was stated that following the restructuring of functions in November 2023, the Property and Facilities Management functions have been operating towards the Corporate Landlord model, taking an increasingly strategic overview of the council's property assets. Since then, further work has been undertaken to confirm the scope of the Corporate Landlord model and the assets to transfer into corporate management from individual services. Work is now underway to transfer assets from services into the centralised model. A full review of all assets within the portfolio has been undertaken to identify assets that no longer meet the Best Value requirements of the council.
- j) At the IAB meeting on 25 January 2024, two further instructions were issued by the IAB:
  - The Section 151 Officer, after consultation with the Chief Executive and fellow Corporate Directors, shall present his best professional view on a draft budget for 2024/25 in line with normally expected professional standards but which in particular maximises the level of savings options that Corporate Directors believe can be delivered and thus quantifies the minimum budget imbalance relying on the bid to Government for 'Exceptional Financial Support'.
  - Subject only to any professionally required changes determined by the Section 151 Officer, the draft budget for 2024/25 as defined in 1 above, shall be presented and recommended to the Full budget setting Council meeting for its approval.

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

- k) Beverley Gouveia, Head of Property, informed the Committee that there is currently £8.1 million in capital receipts held in the bank and that the two

auctions which have recently taken place have secured a further £9 million. There is another auction planned for next week which should give a total of £17 million for the financial year. Work is underway to identify more properties for the coming financial year.

- l) The Committee agreed that the Council was in a difficult financial position and that the scale of cuts would likely impact any improvement and best value duty journey.
- m) It was clarified that even though deadlines set out by the IAB have been met, the changes and the processes implemented are embedded and continue to be considered as ongoing. The Department for Levelling up, Housing and Communities (DLUC) were explicit in their letter in regards to the appointment of commissioners that all 39 instructions (and two most recent) would continue to be in force until such time the commissioners remove them. There will be a transition period from the IAB to commissioners.
- n) The Council is still awaiting a decision from DLUC on its applications for EFS. This needs to be approved before Council can approve a budget as a balanced budget is dependent on the approval of EFS. A decision is expected before the meeting of City Council on 04 March 2024.
- o) The Committee queried the management of Section 106 monies and what needs to be done to improve management of it.
- p) The Committee discussed instruction 5 surrounding HRA monies and queried the IAB's view of repaying it over an 8 year period with it costing more when interest payments are taken into account. It was explained that the Council would not be able to afford to repay the amount in one repayment, and the IAB's view is that they are happy for it to be paid over two MTFP periods.
- q) The Committee discussed sensitivity analysis, risk analysis, and how estimates have been established during the budget setting process. The budget process was outlined which involved a rigorous check with CLT through a duties and powers approach to ascertain robust savings which the Council is able to deliver, and this involved forecasting and estimates based on professional opinion. There was, however, a certain degree of unreliability due to uncertainties surrounding the market, inflation and interest rates, and demand. The budget monitoring process will be able to assess those forecasts throughout the year and adjustments can be made if necessary.

**Resolved:**

- 1) To note the update on the IAB finance instructions.**
- 2) That the Committee receive further information on how Section 106 monies are handled.**

**70 Finance Improvement Plan Update**

Shabana Kausar, Head of Finance and Deputy Section 151 Officer presented a report which provided an update on the Council's Finance Improvement Plan (FIP) as well as a progress update on the finance improvement programme.

The following information was highlighted:

- a) Of the 247 clearly defined financial improvement deliverables/actions identified as of January 2024, 42% are completed, 38% are in progress, 14% have not been started due to dependencies on other actions which are in progress, 1% are on hold due to dependencies on other actions, and 5% have been moved to business as usual.
- b) The Plan was a live document and there is very little that is not being worked on. The Committee received assurance that good progress is being made despite capacity issues and the service holding a number of vacant posts.
- c) There will be a review of the FIP at the end of the financial year taking into account the budget and a review of the available resources alongside areas that the Council need to focus on.
- d) The Committee was reminded that Ernest Young (EY) were commissioned to undertake a 12 week focussed controls remediation project in July 2023 seeking to ensure the Council has the essential basic controls in place. That was completed in September and 38 actions were identified. As of January 2024, 27 (71%) of the 38 remediation activities have been implemented and the remaining 11 (29%) are in progress.

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

- e) The Committee sought clarification on when the actions within the FIP will be completed. It was explained that a number of actions are dependant on other activities. Once complete Audit Committee will be updated.
- f) It is likely that the remediation activities will be complete by June's meeting of the Audit Committee.
- g) The Committee queried the impact of the budget on capacity and training. It was explained that there is a risk to the Council in regards to the general market as it is highly competitive, but any reduction or inability to recruit staff may mean that the Council needs to reprioritise.
- h) The Committee discussed the mechanisms in which it can continue to receive assurance once the FIP has been implemented. Members noted that compliance assurance will be given and met through processes such as internal and external audit reports and health check assessments which will be regularly reported back to Audit Committee and CLT. The Group Assurance & Audit Governance Manager reminded the Committee that present and prospective guidance suggests controls and assurance should be developed within the financial activities themselves and be available for political oversight and to the S151 Officer, CLT and Audit Committee amongst others, as Internal Audit were not adequately resourced to do so. The Committee agreed to keep this under review to ensure that the Council did not lose sight of the basics and did not regress on its financial improvement journey.
- i) Improvements continue to be made to Oracle Fusion.



**Resolved:**

- 1) To note the progress made on the FIP and remediation controls project.**
- 2) To note the progress in achieving the City Council's FIP.**
- 3) To note the specific improvements delivered since the last 12 months to January 2024.**
- 4) To note the planned activities within the FIP to the end of February 2024.**
- 5) To note the progress update on the Financial Controls Remediation Project carried out by Ernest Young.**

**71 Statement of Accounts Progress Update**

Glenn Hammons, Interim Finance Lead – Technical Finance presented a report which provided a formal update on progress the Council is making with its statement of accounts relating to 2019/20 to 2023/24.

The following information was highlighted:

- a) Good progress has been made. For 2019/20 all audit queries have been responded to, a draft set of accounts have been produced, and these have been provided to Grant Thornton (GT) who are working their way through their internal assurance processes.
- b) A revised draft set of accounts have been produced for 2020/21.
- c) Work is underway on the 2021/22 accounts to be put the financial statements together and it is expected for that process to be complete by the middle of March.
- d) Good progress is being made on the 2022/23 accounts and these are expected to be completed by the end of May.
- e) It was explained that there are a number of risks to the target dates. These include changes or queries arising from the work Grant Thornton are doing on the 2019/20 accounts, staff capacity, and the consultation process for proposals in dealing with the backlog from Government.
- f) The Committee noted the proposals on dealing with the audit backlog from a national perspective. The proposals consist of three stages: reset, recovery, and reform. These proposals are currently being consulted on. There are a number of different proposals involving DLUC, the National Audit Office, and CIPFA. The Council is currently working its way through the proposals and understanding the implications they will have on the Authority.

**Resolved to note the current position with the Statement of Accounts for the years 2019/20 through to 2023/24.**

**72 External Audit Update**

Helen Lillington, Grant Thornton External Auditors, provided a verbal External Audit update. The following information was highlighted:

- a) Significant progress has been made on the 2019/20 accounts since the last update.
- b) A draft Audit Findings Report will be submitted to the next Committee meeting in March.
- c) Grant Thornton have been supporting Council Officers in making them aware of all of the changes that they have been finding to assist the Council in ensuring that accounts for future years are not held up.
- d) Grant Thornton supports the consultation currently active which aims to resolve the audit backlog in Local Government.
- e) There is a focus now on resolving the outstanding accounts by the dates outlined in the consultation so that the 2023/24 audit can be prepared to ensure that there is a 'reset' and a normal audit timeline can resume.

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

- f) The Committee enquired about the Section 24 Statutory Notice that was issued by Grant Thornton against the Council. Members could not recollect any prior indication to the Committee of this notice being issued. The Notice was issued by Grant Thornton as an independent External Auditors in consultation with Council officers. It was explained that Andrew Smith would be present at the next meeting to explain further.
- g) The External Auditor commented that the Local Government landscape has changed over recent years and the issuing of a Section 24 Statutory Notice has become increasingly common.
- h) It was clarified that the Council has a requirement to respond to the Section 24 Notice and that this response will be presented to City Council at its meeting on 04 March 2024.
- i) The Chair commented that he is keen to ascertain why this notice has been issued against the Council given the difficult financial position of all local authorities nationally. There was a consensus that Grant Thornton have been unable to identify issues and have missed early opportunities to assist in resolving some of the Council's financial issues.

**Resolved:**

- 1) That the External Auditors write to the Committee in advance of the next meeting to explain the rationale behind the issuing of the Section 24 Statutory Notice issued.**
- 2) That the update is noted.**

### **73 Combined 2019/20, 2020/21, 2021/22 and 2022/23 Value for Money Report**

With the agreement of the Chair, this item was deferred.

### **74 Treasury Management Strategy and Capital Strategy**

Glenn Hammons, Interim Finance Lead – Technical Finance, presented the draft Treasury Management and Capital Strategy 2024/25 for Audit Committee’s consideration. The following information was highlighted:

- a) As part of the constitution, Audit Committee is required to scrutinise, review and monitor the Treasury Management Strategy. The Capital Strategy has also been provided as both documents link together.
- b) There are a number of key changes to the Treasury Management Strategy which reflect the application for EFS and budget being considered by City Council on 04 March 2024. These include the Council’s capital financing requirements, temporary borrowing needs, and the Council’s forecast cash flows.
- c) The Capital Strategy also reflects EFS and in particular it reflects prioritisation of the use of capital receipts, support for repayment of any EFS, incorporates temporary changes to the Voluntary and Debt Repayment Policy in order to provide some flexibility in the event of short term borrowing requirements as a result of EFS, and the non-treasury management investments appendix has also been updated to reflect best practice.
- d) The report also provides an update on treasury management activity in the current financial year and outlines how the Council is repaying external loans and borrowing. Members noted that four loans in total that have been repaid.

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

- e) The Committee queried the schedule of commercial investments, and whether there are plans to ascertain up-to-date valuations as the last valuations were done in March 2022. It was explained that they will be re-valued as it is a requirement when the Strategies are updated.
- f) The Committee agreed that it was hard to compare last year’s Treasury Management Strategy with the revised version. They requested that the report pack be updated to better assist the Committee.
- g) The introduction of the Voluntary and Debt Repayment Policy prohibited the Council in undertaking any borrowing in relation to capital expenditure. Because of the EFS application and in order to transact that, the Council needs to be able to dispose of assets or borrow to pay for that capital expenditure and thus the Voluntary and Debt Repayment Policy has been temporarily lifted.

- h) The Committee discussed section 4 of the report which lists the number of service investments. Members queried as to whether some of those should be fully provided against, such as Robin Hood Energy and the Castle Trust given that both companies are now in liquidation. It was explained that to be transparent about the Councils treasury investments, it is required that these are reported and listed in the non-treasury activities section. Members commented that in the way it is written, it reads as though the plan is to fully recover them.

**Resolved:**

- 1) To note the draft Treasury Management Strategy 2024/25.**
- 2) To note the draft Capital Strategy 2024/25.**
- 3) To note the council has repaid £58m of long-term loans early during the year 2023/24 which has been authorised under the Section 151 Officers delegated treasury authority. Further details will be published in the Treasury Outturn report 2023/24 (Section 5).**
- 4) To request a refinement to the Capital Strategy, Annex C, Section 4 to better set out which Service Investments in the Register of Service Investment table have been impaired by the Council.**

**75 Review of Accounting Policies 2023/24**

Glenn Hammons, Interim Finance Lead – Technical Finance, presented a report which outlined a review of the Accounting Policies for 2024/25. The following information was highlighted:

- a) In-line with best practice the Council reviews its Accounting Policies each year.
- b) There are no significant changes proposed from the 2022/23 financial year. There is, however, some minor wording amendments to make the Policy clearer, and updates that have arisen from the CIPFA code have been incorporated.
- c) The Council has a choice as to whether it adopts the International Financial Reporting Standards (IFRS) 16 before it becomes mandatory in 2024/25. The Council is choosing not to adopt it as it needs to spend its focus on clearing the backlog of accounts from previous years and ensuring that deadlines are met for 2023/24 accounts.
- d) The Committee received assurance that the Council has started work on the implementation of IFRS 16 ahead of its mandatory deadline which includes an action plan.

**Resolved:**

- 1) That the Committee Review and approve the Statement of Accounting Policies for inclusion in the 2023/24 annual accounts, including to**

**continue with existing policies where International Financial Reporting Standards (IFRS) allow a degree of choice.**

- 2) That the Committee Review and approve the Council is not voluntarily adopting IFRS 16 for 2023/24 in advance of mandatory implementation in 2024/25.**
- 3) That the Corporate Director, Finance and Resources & Section 151 Officer and Director of Finance & Deputy Section 151 Officer be delegated the ability to make changes to the Accounting Policies 2023/24 to ensure the timely completion of the Accounts, and if any changes are made to report these to a future meeting of the Audit Committee.**

## **76 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 *Paragraph 3 of Part 1 of Schedule 12A to the Act.***

## **77 Internal Audit Report - No Assurance - Exempt appendix**

The Committee reviewed the exempt appendix.

### **Resolved:**

- 1) That the Committee note the update.**
- 2) That the Committee receive a written update and timeline as to when the responsible officer expects the actions and issue to be resolved.**

## **78 Exempt Minutes**

The exempt Minutes of the meeting held on 24 November 2023 were confirmed as an accurate record and signed by the Chair.

## **79 Exempt Recommendation Tracker**

The Committee noted the exempt recommendation tracker.