

# Nottingham City Council

## Audit Committee

Minutes of the meeting held in the Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 28 June 2024 from 9:35am 12:39pm

### Membership

#### Present

Councillor Adele Williams (Chair)  
Councillor Sajid Mohammed (Vice Chair)  
Councillor Michael Edwards (items 1-15)  
Councillor Patience Uloma Ifediora  
Councillor Sulcan Mahmood  
Councillor Eunice Regan  
Councillor Andrew Rule

#### Absent

Councillor Maria Joannou  
Councillor AJ Matsiko

### Colleagues, partners and others in attendance:

Trevor Bone	- Head of Facilities and Building Services
Beth Brown	- Director of Legal and Governance
Ross Brown	- Corporate Director for Finance and Resources
Dawn Cafferty	- Head of Procurement
Glenn Hammons	- Interim Finance Lead for Technical Finance
Shabana Kausar	- Director of Finance
Lucy Lee	- Director of Customer Services
Adrian Mann	- Scrutiny and Audit Support Officer
Lee Mann	- Director of Human Resources and Equality, Diversity and Inclusion
Kate Morris	- Scrutiny and Audit Support Officer
John Slater	- Group Assurance and Audit Governance Manager
Andrew J Smith	- External Auditor, Grant Thornton
Councillor Linda Woodings	- Executive Member for Finance and Resources

### 1 Apologies

Councillor Maria Joannou - personal reasons  
Councillor AJ Matsiko - work commitments

### 2 Appointment of the Vice Chair

Resolved to appoint Councillor Sajid Mohammed as the Vice Chair of the Committee for the 2023/24 municipal year.

### 3 Declarations of Interests

None

#### **4 Minutes**

The minutes of the meeting held on 22 March 2024 were confirmed as a true record and were signed by the Chair.

#### **5 Work Programme**

The Chair presented the Committee's proposed Work Programme for the 2024/25 municipal year. The following points were discussed:

- a) Certain items in the Work Programme still reference the Council's previous Improvement Assurance Board, so these will be updated as appropriate to reflect new arrangements being established by the Commissioners.
- b) Specific Audit training sessions are being established for Committee members and dates will be circulated in due course.

**Resolved to agree the proposed Work Programme for the 2024/25 municipal year.**

#### **6 Recommendation Tracker**

The Chair presented the Committee's Recommendation Tracker and the latest responses received to its recommendations.

The Committee noted the Recommendation Tracker.

#### **7 Future Meeting Dates**

**Resolved to meet on the following Fridays at 9:30am:**

- **26 July 2024**
- **27 September 2024**
- **29 November 2024**
- **28 February 2025**
- **25 April 2025**

#### **8 Improvement and Assurance Board Instructions: Theme 6 - Workforce, Culture and Performance Outcomes**

Lee Mann, Director of Human Resources (HR) and Equality, Diversity and Inclusion, presented a report on the progress, benefit realisation, controls, associated risks and management of the Improvement and Assurance Board (IAB) instructions under Theme 6 – Workforce, Culture and Performance. The following points were raised:

- a) The feedback from the IAB concerning activity within Theme 6 has been positive. The officer leadership structure has been reorganised and simplified, and a new performance appraisal system has been implemented. Training and leadership development programmes have been established, and there is a clear focus on how staff should engage with a positive workplace culture and seek to develop new ways of working. A fresh culture mapping process is being carried out, with focus groups to be established during the summer.

- b) The new instructions issued by the IAB in February 2023 have been responded to, and much of the required work was already underway. A great deal of activity is in place to ensure that all measures to establish and maintain a trained, skilled and competent workforce accommodating fundamental cultural change are fully embedded and arising learning applied. However, although a robust framework is now in place, the delivery of significant culture change is a long-term process. There is a challenge in ensuring that the right specialist capacity is available to drive a wide range of change initiatives and help them to embed properly. As part of the process, it is vital that the new individual performance review system is implemented and delivered effectively at all levels.

The Committee raised the following points in discussion:

- c) The Committee asked how processes were being improved to ensure that any staff vacancies were filled as quickly as possible. It was explained that the strategic HR service needed to be efficient in providing managers with the right tools to implement new policy effectively. The Council's recruitment processes can often be reactive, so it is important for strategic workforce planning to be developed and linked to staffing requirements in individual service areas. A good offer to staff is needed in terms of personal development and career progression, and it is vital that the outcomes of recruitment processes are fully reviewed to develop learning.
- d) The Committee queried how the progress and outcomes of culture change were measured. It was set out that a great deal of information will be collected through the upcoming culture mapping survey, which will then identify areas for follow-up staff surveys. Metrics will be developed for benchmarking against other similar Local Authorities, and the monitoring of turnover, vacancy and sickness rates is being improved.
- e) The Committee asked how the senior officer structure has been simplified, and how corporate knowledge and skills would be retained at the senior level following significant recent turnover in leadership roles. It was reported that the extremely large 'People' directorate has now been divided down into two separate sections, for children and adults – each with its own Corporate Director. However, more work is still required to apply the principles of the new structure across the Council, with service areas rationalised and brought together as appropriate. A robust induction process must be in place for senior staff, with effective periods of handover factored in. A strategic approach to filling roles should be used to avoid the need to use expensive interim staffing from agencies. Consideration is being given to ensuring that the pay scales for all staff are appropriate and as competitive as possible, as part of an overall strategic approach to the Council's workforce.

**Resolved:**

- 1) To take assurance that progress has been made on Theme 6 – Workforce, Culture and Performance Outcomes of the Together for Nottingham Plan, and to note the Plan is now to be replaced by the new Council Improvement Plan (to be approved with the Commissioners in June/July 2024).**

- 2) To note the progress made on the specific Workforce Instructions issued by the Improvement and Assurance Board in February 2023.**

## **9 Exemption from Contract Procedure Rules Quarter 4 2023/24**

Dawn Cafferty, Head of Procurement, presented a report on the number of exemptions from the normal Contract Procedure Rules granted during Quarter 4 2023/24 and a summary of the exemptions granted during the full financial year. The following points were raised:

- a) It is proposed that the reporting of granted exemptions from the normal Contract Procedure Rules should now be made to the Committee on an annual basis, going forward.
- b) All of the exemptions given are sound and are granted following a robust process. Of the six exemptions approved in Quarter 4, three were unavoidable with no viable alternative option to an exemption being granted. However, exemption in the other three cases might not have been required if action had been taken earlier, so the learning has been considered and improvement processes put in place to limit exemptions being sought when the need for them could have been avoided. New legislation in relation to Local Authority procurement processes is coming into effect from October, and the appropriate training in the new requirements is being rolled out.

The Committee raised the following points in discussion:

- c) The Committee considered that, as part of annual reporting on the exemptions granted to the normal Contract Procedure Rules, full information on the exemption requests made but rejected should also be included.

### **Resolved:**

- 1) To take assurance from the number of exemptions from Contract Procedure Rules during Quarter 4 of 2023/24 and the total exemptions for the 2023/24 financial year.**
- 2) To accept the actions identified in the report to provide assurance that contracts are awarded in line with the Contract Procedure Rules and that exemptions only occur where there is a sound rationale for approving the exemption.**
- 3) To agree to reduce the expectation of reporting on requests for exemption from Contract Procedure rules to an annual report, as required by the Constitution, to reflect the reduction of approved requests.**
- 4) To request that full information on the exemption requests made but rejected is also included as part of the annual reporting process.**

## **10 External Auditor Update**

Andrew Smith, External Auditor from Grant Thornton, provided a verbal update on the current timescale for the signing-off of the Council's 2019/20 accounts. The following points were raised:

- a) A final report from the External Auditor on the Council's 2019/20 accounts is being drafted for completion by the end of September. It was aimed for the report to be completed earlier, but this was delayed due to capacity issues arising from significant audit work currently being done for the NHS. Although there are still some areas where more evidence would be needed to be fully complete, it has been agreed that these parts of the audit can be finalised with qualified assumptions as the relevant controls are being improved. This audit was extremely complex due to the significant number of adjustments that had to be made to the Council's original draft accounts, produced in 2020.

The Committee raised the following points in discussion:

- b) The Committee asked what had caused the substantial adjustments required, which had delayed the report being finalised so substantially. It was explained that the most significant adjustments had arisen as a result of the position around the Council-owned Robin Hood Energy company, and the fact that the Council had needed to re-commission a full valuation of its land and buildings, which was not ultimately completed until 2023.
- c) The Committee sought confirmation that the 2019/20 audit would be completed by the end of September and asked whether, following this, the 2020-23 audits could then be completed more swiftly. It was set out that the completion of the 2020-23 audits should now be much more straightforward, subject to no more changes being made to the latest version of the 2019/20 accounts as submitted by the Council in November 2023. A plan is now being agreed with the Council for the conduct of the audit of the 2023/24 accounts, which is likely to be completed in 2025.
- d) The Committee requested that, for the purposes of transparency, the External Auditor should provide all updates in the form of a written report to be included as part of the published agenda papers, rather than doing so verbally. The Committee noted that it would discuss any concerns about the progress of any external audits with the Corporate Director for Finance and Resources, for escalation as appropriate.

### **Resolved:**

- 1) To note the verbal update from the External Auditor.**
- 2) To request that the External Auditor provides all future updates on its audit activity in a written form.**

## **11 Statement of Accounts Progress Update**

Glenn Hammons, Interim Finance Lead for Technical Finance, presented a report on the progress towards the conclusion of the Council's Statement of Accounts for the period of 2019/20 to 2023/24. The following points were raised:

- a) The finalised 2019/20 accounts were submitted to the External Auditor in November 2023 and should be completed shortly. Subject to these being concluded without further adjustment, the sets of accounts for 2020-23 have been prepared for public inspection and presentation to the Committee, with the draft 2022/23 accounts anticipated to be available during July. There is a national backlog of public sector audits and legislation has been put forward to establish a revised backstop date for the public inspection requirements. The calling of the upcoming General Election is likely to have affected the timing of the passing of the relevant Regulations, but the new backstop date is expected to be around the end of September.
- b) The close-down process is underway for the 2023/24 accounts and a provisional final outturn report has been produced and reviewed by the Executive Board. As such, the production of the draft 2023/24 accounts is now taking place – but it is vital that all of the accounts for 2019-23 are signed off with the External Auditor in a timely way to ensure a clear position for the latest accounts.

The Committee raised the following points in discussion:

- c) The Committee requested confirmation that all draft accounts for 2019-23 had been completed, and that the right capacity was in place for the 2023/24 accounts to be delivered effectively. It was reported that all 2019-23 draft accounts have been produced and are considered to be fully compliant with the national requirements and standards. It is vital that the right staff resources and skills are in place within the Finance team to ensure that all accounts can be delivered effectively and efficiently, and it has been necessary to deploy additional capacity to clear certain backlogs. It will also be important for the right level of capacity to be in place for the period of the new audit, so that the queries arising from the External Auditor as part of the process can be addressed quickly and effectively.

### **Resolved:**

- 1) To take assurance on the current position with the Statement of Accounts for the years 2019/20 through to 2023/24.**
- 2) To take assurance on the indicative timeline and associated risks for publishing the Statement of Accounts for financial years 2019/20, 2020/21, 2021/22 and 2022/23 to meet the proposed national backstop dates (as set out in Section 3.5 to the report).**
- 3) To take assurance on the progress, indicative timeline and associated risks for publishing the Statement of Accounts for financial year 2023/24 (as set out in Section 3.6 to the report).**

## 12 Treasury Management Annual Report 2023/24

Glenn Hammons, Interim Finance Lead for Technical Finance, presented a report on the Council's performance in relation to Treasury management activity and the associated monitoring and control of risk. The following points were raised:

- a) There is currently a high level of wider economic uncertainty, so interest rates have remained higher for longer periods of time. The Council has a voluntary debt reduction policy in place, reducing its external loan debt by £77 million by the end of 2023/24. The Council has been able to repay £58 million in debt early, achieving a bonus of £1.6 million that will be recognised in the Revenue Account over the next 10 years. The interest rates being charged on loans have decreased and, coupled with early loan repayments, this has resulted in a saving of £900,000 in relation to interest payments.
- b) The Council is achieving a return on its investments, all of which have been made in compliance with the Prudential Code. Coupled with the approaches taken to debt management, this has resulted in underspends in both the General Fund and the Housing Revenue Account.

The Committee raised the following points in discussion:

- c) The Committee asked what improvement work had been done recently to ensure a strong Treasury Management function. It was reported that a very proactive approach has been taken to the management of debt to seek to reduce costs as much as possible in the long-term. There has been a close focus on ensuring that the Minimum Revenue Provision set aside to repay borrowing is at an effective and prudent level, and this had been successful in delivering better value.
- d) The Committee asked how the Council ensured social value in its investments. It was explained that opportunities for investment in line with the Council's established risk appetite are considered where appropriate, though the primary objective of effective Treasury Management is to ensure the security of the Council's cash, which is largely achieved through the driving down the costs of borrowing and debt. Long-term investment initiatives are managed outside the general Treasury function.
- e) The Committee asked how effective risk analysis informed Treasury activity. It was set out that the Treasury Management Strategy had a very strong focus on ensuring effective risk analysis, with detailed risk management being an inherent element of all Treasury functions. A Treasury Management Board is in place to review risk on a regular basis, balancing all options for the use of surplus cash effectively while ensuring that the Council maintains appropriate liquidity. A great deal of work is undertaken to safeguard against defaulting by the Council's debtors, as this could have a significant impact on cashflow.
- f) The Committee sought confirmation that the current Treasury Management activity is delivering the requirements of the Council's Medium-Term Financial Plan (MTFP). It was reported that the Treasury function was delivering the Council's current financial strategy effectively, with clear links to the requirements of the MTFP. Debt is being restructured in a proactive way, borrowing costs are

being reduced and everything possible is being done to support the General Fund. Currently, the disposal of the Council's surplus assets is being used to support capital expenditure rather than this being done through borrowing, further reducing costs.

**Resolved:**

- 1) To take assurance that the Treasury management controls and risk management practises in place that have operated in 2023/24 are working effectively.**

### **13 Finance Improvement Plan Progress Update**

Shabana Kausar, Director of Finance, presented a report on the progress made against the Council's Finance Improvement Plan (FIP) since the last reported position to the Committee in March 2024. The following points were raised:

- a) As of the end of May, 85% of the improvements set out in the FIP have been delivered and embedded. Of the remainder, there is only a very small proportion where delivery activity has not yet begun (or has been put on hold). Where this is the case, this has largely been due to a lack of resources being available, so work is underway to increase capacity where needed.
- b) A Financial Accountabilities Framework was launched at the end of March to set out the responsibilities for budget management, planning, monitoring and reporting, and it constitutes a robust mechanism for ensuring financial accountability amongst managers. Delivery of the Framework has been aligned to the individual performance review process in terms of ensuring that managers are properly accountable for their budgets, and mandatory training is in place.
- c) The Financial Controls Remediation Project has been introduced to address any weaknesses in the Council's financial control environment. Work is currently taking place in the three key areas of 'Purchase to Pay', 'Record to Report' and the 'Segregation of Certain Financial Activities' (which ensures that all ring-fenced funds are properly transparent in terms of their budgeting). An external report has been completed on the Council's approach to managing ring-fenced budgets and, although there has been good delivery of key controls, there is still a great deal of improvement work to be done to ensure that a mature control environment is fully embedded. Ultimately, there is a close focus so that improvement work is monitored effectively and that arising learning is properly implemented.

The Committee raised the following points in discussion:

- d) The Committee asked what work was being carried out to ensure that the Financial Accountabilities Framework was being implemented effectively at all levels. It was reported that a great deal of the activity controlled by the Framework was not new, but that there are now better measures in place for the establishment of expectations and the monitoring of delivery. Proper risk management processes are in force, along with a full review process at all levels to monitor progress and respond to any arising issues. Recording and reporting take place on a continuous basis so that the Finance function has strong visibility

of the current budget position, so corrective action can be taken rapidly if areas of potential overspend arise.

- e) The Committee queried whether all budget managers fully understood the management tools that were available to them. It was explained that the Chief Executive and Corporate Directors delegate budgets within directorates, and work to ensure effective forecasting and proper control. Finance has a strong focus on engaging with directorates to ensure accurate budget forecasting and the effective management of budget risk. There is a need for constant training and improvement in the financial literacy of budget managers, but the level of financial oversight is now much greater than it was before.
- f) The Committee asked how the FIP was being resourced to ensure that real improvement was properly embedded. It was set out that a long-term, strategic and full-system approach had been taken to ensuring the effective resourcing and embedding of the FIP. Improvement plans are in place in individual areas to ensure that there is proper interface between the directorates and the Finance function. Focused monitoring is taking place to review the delivery progress of the unachieved savings backlog as part of the current budget requirements. There is capacity within the Finance team to respond to challenges as they arise, and to ensure that the right tools and methodologies are available to managers so that they can exercise proper budgetary control.
- g) The Committee asked whether the current Spend Control processes were operating in a timely way, and how they were reflected in the Financial Accountabilities Framework. It was explained that the Spend Controls are a temporary measure designed to address a specific set of circumstances, so they sit separately to the Framework. Due to the volume of decisions being taken in the Council on a daily basis, the Spend Controls can cause delays to normal processes of approval. However, refinements have been made to ensure that the Spend Control process operates as swiftly as possible, with proper mitigations established against perverse outcomes. The Spend Control position is kept under constant review so that a suitable future exit strategy can be developed.
- h) The Committee considered that a proper reflection process should be undertaken as to how the Council's 2024/25 budget was developed, and its conclusions used to help inform how the Audit and Scrutiny functions should be engaged effectively in the development of the 2025/26 budget.

**Resolved:**

- 1) To take assurance from the governance arrangements in place in relation to the delivery of the Council's Finance Improvement Plan.**
- 2) To recognise the specific improvements delivered since the last update to the Committee in March 2024 (as set out in Section 3 to the report).**
- 3) To take assurance in the progress being made on the following finance-related activities:**
  - **the Statutory Accounts for 2019/20 to 2022/23 (as set out in Section 4 to the report);**

- **the Financial Accountability Framework (as set out in Section 5 to the report); and**
  - **the Financial Controls Remediation Project (as set out in Section 6 to the report).**
- 4) To request that a reflection process is undertaken as to how the Council's 2024/25 budget was developed, and its conclusions used to plan how the Council's Audit and Scrutiny functions will be engaged in the development of the 2025/26 budget in a meaningful way.**

#### **14 Internal Audit - 'No Assurance' Reports**

John Slater, Group Assurance and Audit Governance Manager, presented a report on the current Internal Audit activity that had resulted in 'no assurance' findings, and Shabana Kausar, Director of Finance, Lee Mann, Director of Human Resources (HR) and Equality, Diversity and Inclusion, Beth Brown, Director of Legal and Governance, and Lucy Lee, Director of Customer Services, provided verbal updates on the activity carried out in response. The following points were raised:

- a) There are currently five Internal Audit reviews that have been carried out that have reported positions of 'no assurance'. To date, Internal Audit has provided updates on progress to the Committee every 3-4 months but, due to current capacity demands, it is unlikely that it will be possible for another report to be made until January 2025.
- b) In terms of reviewing the management of colleague expenses in October 2023, Internal Audit considered that the system of internal controls was weak, with consistent non-compliance with key controls. The policy governing expenses is being brought up to date, but this is not yet completed, and Internal Audit is concerned that there are potential problems with the accuracy of reporting to HM Revenue and Customs. Finance colleagues are confident that processes are now properly compliant and work is underway to recover overpayments, particularly in the context of mileage claims. HR colleagues are also working to review and redraft the associated policies, working in consultation with staff and their Trade Unions. However, there is not yet full agreement between Finance and Internal Audit on the proposed approach to corrective action.
- c) The Committee considered that it is vital for there to be an effective working relationship between Finance and the independent Internal Audit function, so that issues identified can be resolved in a timely way. The Committee requested sight of the action plans that had been drawn up in response to the findings around colleague expenses to seek to help resolve the differences of opinion between Finance and Internal Audit officers.
- d) Internal Audit has reviewed the Council's business continuity arrangements and was concerned by an apparent lack of control and reporting, with single points of failure identified within certain systems. Internal Audit colleagues were particularly concerned that replies to their recommendations had not yet been received from the relevant departments. Responses to the Internal Audit recommendations are in train, and the Council's systems being reviewed in terms of their robustness for

ensuring business continuity. Engagement is underway with IT colleagues on addressing the recommendations in relation to the Council's IT systems.

- e) An Internal Audit report on Appointeeship in June 2023 raised concerns around the processes for managing appointeeship accounts. Work is underway to ensure that these issues are properly addressed, but progress has sometimes been slowed due to external factors.
- f) An Internal Audit report on HR and Payroll in June 2023 identified a number of concerns, including in relation to Disclosure and Barring Service (DBS) checks, workforce certification renewals, overpayments in relation to leavers and the quality and integrity of data. HR has established systems to address overpayments, with policy reviews and system updates underway to ensure that compliant frameworks are in place. Compliance reports are run regularly and a great deal of work has been done to achieve the introduction of proper monitoring and compliance dashboards, particularly in the context of DBS renewals – where specific, regular reports are now made to departments where a number of their staff require these checks to be done.
- g) The Committee considered that it was important for learning to be taken from the Internal Audit reporting process in an integrated way across the whole Council so that issues were not repeated in the future.

**Resolved:**

- 1) To request a written update from the Director of Finance on the progress towards meeting the Internal Audit recommendations in relation to Colleague Expenses.**
- 2) To request the detailed action plan for how the Internal Audit recommendations in relation to Business Continuity will be implemented.**
- 3) To request written confirmation from the Director of Customer Services once the final issues in relation to Appointeeship accounts have been concluded.**
- 4) To request a written update from the Director of Human Resources (HR) and Equality, Diversity and Inclusion on the progress towards meeting the Internal Audit recommendations in relation to HR and Payroll.**

**15 Exclusion of the Public**

**The Committee resolved to exclude the public from the meeting during consideration of the remaining items in accordance with Section 100A of the Local Government Act 1972, under Schedule 12A, Part 1, Paragraph 3, on the basis that, having regard to all the circumstances, the public interest in maintaining an exemption outweighed the public interest in disclosing the information.**

## **16 Internal Audit - 'No Assurance' Reports - Exempt Appendix**

John Slater, Group Assurance and Audit Governance Manager, presented the exempt appendix to the report on the current Internal Audit activity that had resulted in 'no assurance' findings.

The Committee noted the exempt appendix to the report.

## **17 Exempt Minutes**

The exempt minutes of the meeting held on 22 March 2024 were confirmed as a true record and were signed by the Chair.

## **18 Exempt Recommendation Tracker**

The Committee noted the exempt Recommendation Tracker.