Report to Audit Committee

Internal Audit Review of Culture / Ethics

Purpose and Scope

1.1 The Public Sector Internal Audit Standards (PSIAS) 2011 require Internal Audit to assess and make appropriate recommendations to improve the organisation's governance processes, including promoting appropriate ethics and values within the organisation.

1.2 This report summarises the results of this review which draws upon the recent external reports and Internal Audit reports for indicators of cultural behaviours. The report also considers progress on the improvement plans created in response to the non-statutory Review and PIR

Definition of Culture

1.3 Organisational Culture has been defined as: ***"… a set of shared assumptions that guide what happens in organizations by defining appropriate behavior for various situations"*** Put more succinctly:

"the way things are done around here". It has been identified as a driver for the realisation of strategy and business performance success:

"the basic reality is that poorly managed cultures lead to poor customer and business outcomes."

1.4 There are several different methods for reviewing culture within an organisation. There are, however, key questions that need to be asked:

    A. **What is the desired culture?** Is it defined, is it agreed, is it widely known?

    B. **What is done to promote or drive the desired culture?** Are the organisational structure, power structures, control systems promoting the desired culture? What stories, symbols and rituals & routines assist?

    C. **What encourages desired behaviour and challenges unwanted behaviours?** Does governance, policies, strategies, training and rules fit with the desired culture?

    D. **What culture is currently operating?** What do management, colleagues and external sources say? What stories does the Council promote about itself? What do assurance reports including Internal Audit reports say?

Review of External Reports

1.5 The Public Interest Report (PIR) and the Non-Statutory Review (NSR) have identified a number of areas of concern across the activities of the Council. That these have been created in part, by a prevalent, negative culture at the council is confirmed by Max Caller in his executive summary in the NSR:

"To return to financial and operational stability the Council needs to focus its goals on what can reasonably be afforded during the necessary recovery period. It needs to move quickly to change structures, culture and mechanisms at both Member and Officer level." and the conclusion:

"A fundamental culture shift is required together with a much simpler structure, working together, with clear accountability and a strong personal and collective performance management regime starting from Councillors and focused through the Chief Executive right down the organisation."

The External Auditors report on Nottingham City Council's Value-for-money has been issued with an adverse conclusion on financial sustainability, company governance and management of significant projects relating to good governance criteria of sustainable resource deployment and informed decision making. We have reviewed the reports and organised the areas of concern into six areas in **the table below:**

Area	Finding at NCC	Selected examples from External Reports
Governance	Poor governance practices and structures	Lack of sector experience and skills on company boards
		Lack of clarity on roles and responsibilities e.g Shareholder Rep
		Evidence of conflicts of interests
		Distinction between Company/Council and party/council business is blurred
		Ineffective checks and balances e.g. Audit Committee and O&S
		Structure of Executive and Senior officers complicated and overlapping
Risk	Poor risk management (RM)	Failure to appreciate and manage risks e.g commercialism and income generation
		Lack of meaningful mitigations
		Capital expenditure unconstrained, high debt levels
		Companies move beyond initial objective which brings additional risk
Decision Making	Poor preparation and consideration resulting in poor decisions	Finance outlook not reflected in decisions made
		Lack of business case analysis
		Lack of consistency in decisions
		Time pressured decisions

Area	Finding at NCC	Selected examples from External Reports
Holding to account	Failure to hold Companies and officers to account	Conflict between driving policy initiatives and scrutiny and monitoring function
		Lack of evidence of effective monitoring
		No template for monitoring companies
		No mechanism for setting targets and Goals for CEO
Challenge	Failure to heed warnings Institutional blindness Challenge not encouraged	Failure to act on internal and external warnings
		Challenge from Statutory Officers not encouraged
		Policy takes priority over financial and other interests
Appropriate and timely actions	Failure to act with pace and scale	Lack of transformational savings plans
		Reliance on reserves and one off savings, no sustainable MTFP
		No effective mechanism for budget savings plan

1.6   It is evident that issues traverse all activities of the council and at both officer and councillor levels. This suggests that there is a pervading culture within the organisation which both allows and encourages structures, strategies, processes and decisions to be instituted and carried out in a way that is not conducive to successfully achieving objectives within resources.

Results of Internal Audit Reviews

1.7   Our review of a selection of recent Internal Audit Reports has corroborated the findings of the PIR and NSR. We have identified three additional themes which indicate cultural norms within the Council. These are: a lack of compliance to processes and rules, sparsity of quality assurance functions and incomplete record keeping.

The following bullet points contain examples from IA reports, which corroborate selected themes identified:

- **Governance.** Voluntary Sector - serious concerns around blurring of Council and party business through the involvement of Councillors in operational work. Guildhall Pipeworks - poor reporting of expenditure in the capital programme and a lack of approval for the scheme. Concerns with ICT governance and management were stated in the Internal Audit Annual Report 2019/20.
- **Risk Management.** RM Audit - risk specialist role was not filled for a number of years (until 2018), meaning resourcing in this area had been poor. Whilst much progress has been made in recent years at a corporate level, other audits still reveal poor risk management at a service level e.g. Cloud based applications.
- **Decision Making.** Decision Making - identified poor preparation and due diligence in reports for decision makers.

- **Holding to account.** Decision Making and Voluntary Sector - significant weaknesses in holding providers of bought services to account. Monitoring and performance reviews did not take place or were less than robust.
- **Lack of challenge.** Identified in Decision Making and Voluntary Sector reports and Traffic Capital audit where financial oversight of the performance of capital projects was not evident.
- **Appropriate and timely actions.** NDR 2019 - continuing failure to have systematic inspection programme. IT audits: E-CINS, Cyber Risk and IT Security (draft) all highlight resourcing concerns.
- **Compliance.** Procurement - serious concerns with officers' compliance with rules and regulations including the NCC Code of Conduct, UK and EU procurement regulations and NCC Financial Regulations and Contract Procedure Rules. Latest data for IT Security awareness and GDPR training is reported as 71% overall.
- **Quality Assurance.** Disciplinary Process - no formal or owned quality assurance function which had led to questionable decisions not being challenged. Contract Management - lack of Contract Management Policy and associated standards.

Improvement Plans

1.8   Two improvement plans have been created in response to the PIR and NSR: the PIR Action Plan and the Nottingham City Council Recovery & Improvement Plan 2021-24. The improvement plans set out the desire and need for transformation, however, cultural factors will need to align to ensure that the necessities to achieve transformation are prioritised. The test for any transformation plan will be delivery underpinned by resourcing, particularly that of core competences and IT, and the impact delivery has on organisational culture.

1.9   To achieve a desired culture within an organisation, we have seen that a number of approaches are required:

> **A.** Define and agree the desired culture
> **B.** Promote and drive the desired culture
> **C.** Encourage wanted behaviours and challenge unwanted behaviours
> **D.** Review the culture that is operating

We have reviewed the improvement plans through a cultural lens, to draw out the actions that correspond with these elements. A table of our findings can be found in **Appendix A**.

1.10   Appendix A shows that work is under way to map the current and desired culture. Quotes from the plans suggest the Council has begun to define the desired culture and how this will differ from the current/past culture. As work progresses, it is assumed the definition will be refined further and formally agreed. The Improvement plans have set out a breadth and depth of action to drive the new culture, instituting improved structures and control systems at the highest levels. New structures and governance should

require new ways of working and new systems and routines will be created. The Council needs to ensure that these are in line with the new culture. *"In the absence of active management, a culture will develop which may not align to the aims of the overall business."*

1.11 We note the following areas of desired culture, mechanisms for which have yet to be planned:

- evidence-based decision making
- bringing forward challenging/contrary evidence
- citizens more actively engaged with determining future service delivery

and are yet to see the extent to which in practice the Council acts on the NSR's assertion in relation to directors of council-owned companies that *"If the Council is to continue to be involved with a company structure in the future it needs to appraise the roles and skill sets required for specific companies and ensure they appoint the best match, even if this means the individual appointed is not a councillor."*

1.12 A significant artefact of culture is stories that an organisation tells about itself. We are at an early stage of the improvement process and therefore this area is in its infancy, however, we have seen that there has already been consistent communication on the improvement process and why it has been necessary. Going forward, the council may wish to consider how the stories inside and outside the Council supported a negative culture and how this area could be utilised in future to support cultural transformation.

1.13 Policy, training and new strategies all appear within the action plan and will be important in guiding individuals to adopt new behaviours. The 'Tone from the Top' from the Leader and Chief Executive in responding to issues is already evident as seen in their regular communications to colleagues. The Council will need to consider further however, how unwanted behaviours in Councillors and Officers will be identified, measured, challenged and deterred, where responsibility for this will sit and how it will be known that action is being taken. Our previous audits in Budget Monitoring and the Disciplinary Process both noted that where roles here had been rolled out to managers, it had not led to consistent and effective management of that activity. The taking of responsibility, accountability or challenge was not in evidence.

1.14 Leadership have identified and recognised positive culture that they would like to see continued at the council, for example *"The organisation's pride in itself and the dedication of its employees (as evidenced by its response to the Coronavirus pandemic for example), are impressive, and are strengths that can be built on."* We have also identified positive culture. In the IA Annual Report 2019/20, we recognised the positive response to the Food Safety Agency (FSA) 2016 report, such as instituting a resource to tackle the backlog of work. We noted that the FSA had commented positively on NCC's response. Also in our follow-up audit of Risk Management, we reported that significant progress had been made in corporate risk identification and management in a short period following the appointment of a risk specialist.

1.15   Grant Thornton, in their Corporate Governance Review 2020, has a Best Practice Toolkit for Culture. This is reproduced at Appendix B and promotes three key activities:

- Tone from the Top
- Embedding
- Monitoring and Measuring.

It will be important for the Council to ensure that these themes are appropriately resourced during and after the transformation period. The report makes the important point that **"Focus on culture should be continuous, not just in times of crisis".** Any changes to the improvement plans must be made through the governance structure and affirmed by the Improvement and Assurance Board. Internal Audit are available to discuss this report and our observations and will continue to provide reports to the organisation which measure progress.

Culture Mapping Workstream

1.16   We note that senior leadership have recently been provided with the results of the work on culture mapping which have been drawn from surveys, focus groups and a desk-top review. This work has highlighted a number of areas of focus for leaders / colleagues which includes communication, collaboration, performance management and relationships.

1.17   Whilst conducting this review, the colleague survey, as part of this workstream, was released. We note that colleague opinion surveys have been carried out before, the last two being in 2017 and 2018. Within the recent analysis shared with senior leadership, there was an indication that the desk-top review considered the previous (2018) survey but there was no further commentary regarding colleague perception of the culture at the time. Leadership may wish to enquire if these had identified negative culture/behaviours operating within the council.

1.18   We have compared the latest colleague survey questions with the themes listed at 1.3, 1.7 and 1.16 to see if the survey is likely to produce any organisational cultural insight.

- We consider that none of the statements within the survey related to governance, risk or performance management and only one to decision making.
- There were however, a number of statements relating to 'holding to account' and 'challenge' and also 'Tone from the Top'.
- There were two statements related to compliance, however, one of these was confusing as it asked if *"There are few rules or meetings that get in the way of work".* The statement is diluted as it provides two items: rules, that suggest compliance and meetings that suggest bureaucracy. Respondents may be commenting on either one or both of the items, but this will not be known.
- There were five other statements we found to be ambiguous which may impact measurement.

1.19 There are a high number of statements about communication (7) and the individual versus the organisation (5). These were not items that were highlighted as an issue in the external reports and may reflect the previous Leadership's focus. Questions relating to risk, governance and compliance may have provided better insight whilst also indicating the balance between individual versus organisation.

1.20 An opportunity has been lost with the question: '*I feel able to speak up about problems I witness or failure in my service*' as there is no follow up question to ascertain if people DO speak up or if they don't, why not. It would have been beneficial to understand from the survey what participants' views were regarding the statements for themselves, their team, their service and the Council, as these views may differ – it will not be clear what the answer relates to. Without this additional analysis any action planning may be misdirected and ineffective.

1.21 We also found it interesting that the first statement which may set the tone for the survey, was *'There's too much gossip at NCC'*. This seems to have no connection with the cultural insights the external reports have provided NCC.

1.22 Overall the survey appeared to be aimed at surveying staff engagement in addition to culture and perhaps because of this did not appear to approach culture effectively in our view.

1.23 We note that the results of the focus groups, surveys and desk top review were not available to us as we undertook our fieldwork and have just recently been shared with senior leadership. We will endeavour to consider the available data as it is made available to us to enable us to refresh our view.

Opinion

1.24 We can report a Limited Level of Assurance on the controls in this area which is based upon the following areas of concern:-

- The significant number of issues relating to poor culture raised in external reports, corroborated by recent Internal Audit reports

- Lack of previous progress on improving highlighted issues regarding governance, compliance, risk and the holding to account of providers, companies and managers

- Mechanisms are yet to be planned to promote evidence based decision making, bringing forward of challenging/contrary evidence, active engagement of citizens in future service delivery

- The extent to which new company structures will deliver against the recommendations made, and specifically the level of expertise needed at board level is not yet confirmed

- The mechanism for effectively challenging unwanted behaviours by Councillors and Officers and by which culture will be continuously monitored is not yet set out.

- We have little confidence in the level of useful qualitative and quantitative insight that can be delivered from the existing Culture Survey.

Appendix A - Review the improvement plans through a cultural lens

Approach	NCC response
A. Define and agree the desired culture	**Recovery & Improvement Plan** has section dedicated to Culture and one of the eight themes is Organisation and Culture:
	"Evidence-based decision-making should explicitly be part of our culture, and bringing forwards challenging/contrary evidence should not be seen as demonstrating a lack of commitment to the Council's ambitions."
	"Setting a positive future for the city and council will be less about doing for, and more about doing with our residents and communities, with our citizens more actively engaged in determining how our services are delivered."
	Values and future culture message map and vision to be agreed March 2021.
	PIR Action Plan Recommendation 12: *"… moving to a culture in which challenge of political priorities and how they are being implemented is seen as a positive."*
B. Promote and drive the desired culture (organisational structure, power structures, control systems, stories, symbols, and rituals & routines)	*"… organisational, structural and developmental objectives that aim to create the conditions in which a positive culture can thrive…"* (Recovery & Improvement Plan)
	New Constitution
	Revised Company Governance
	New TOR for O&S 'Whole council view' of activities. January 21
	Member Officer Protocol. Completed
	Review of Portfolios
	New Boards: - Governance Improvement Programme & Board (established after PIR, to move under the Recovery & Improvement programme) - Capital Board February 2021
	New Performance Management Framework. The top level goals and approach have now been agreed
	Departments establishing a representative sample of statutory indicators. The list is being refined and due for sign-off 22nd April.
	New Senior Officer structure (ACOS report on CD restructure. February 21)
	Strengthened capital governance and control framework
	Leadership Capability Framework
C. Encourage wanted behaviours	Comms and engagement activities e.g.:

Approach	NCC response
and challenge unwanted behaviours (policies, training, strategies, rules, Leadership 'Tone from the Top')	• 22/1/21 email, re new officer/councillor protocol • 19/1/21 email announces publication of Recovery & Improvement Plan • 5/2/21 email Improvement and Assurance Board membership agreed. Summary of improvement plan provided. • Mel's blog 5/2/21 reiterates Improvement Plan
	Training: • Mandatory company director training • Member development programme
	Leadership Development Programme, coaching
	Leadership Capability Framework principles (LCF) developed and agreed March 2021
	Refreshed Policy Framework
	Executive & Non-executive Director Policy Statement
	Establishment of Officer Shareholder Executive Function
	Reinstatement of company analytics
	Revised/New strategies: • Capital Strategy • Asset Management & Disposal Strategies • Overarching commercial strategy for companies • Revised Council Plan
	How to effectively challenge unwanted behaviours, will need to be considered.
D. **Review the culture that is operating**	Culture Mapping. February/March 2021. Inc. Surveys (CLT, SLMG, wider workforce) and focus groups
	Senior Leadership Forum - CLT attended to introduce culture and organisation work stream February 2021
	How the progress of the cultural transformation will be reviewed and measured going forward, will need to be considered.

Appendix B Grant Thornton Best Practice Toolkit

⚙ Elements/content	💬 Things to consider
Setting the tone from the top	The board and management are responsible for setting the 'tone from the top'. This means understanding and articulating the desired culture framework of the organisation in line with purpose and strategy, and beholding to it in their own working practices and interactions within the company and with its stakeholders. The focus should be on defining what they expect of themselves, senior management and all employees of values, behaviours and the group dynamics.
	The board should be clear what sort of culture is needed to underpin the company's purpose and deliver its outlined long-term success.
	The board should consider what behaviours are being driven when setting the strategy and financial targets as well as metrics used in long-term incentives for executives and all employees.
	Focus on culture should be continuous, not just in times of crisis.

Embedding

The chief executive is responsible for embedding culture in an organisation. At the same time, senior and middle management are those who have the largest direct impact in daily interactions therefore they should be identified as cultural influencers within the organisation.

The board should consider how management communicate what they consider to be acceptable business practices in order to frame corporate behaviour and values.

Think how the company is embedding values and capturing behaviours at every level of an organisation:

- recruitment process should be aligned with company culture and values, at employee and board level

- reward should incentivise desired behaviours

- embed strategy and values within HR policies and performance appraisals

- training, internal and external communication should be consistent,
  and deliver the board's message

- culture should be consistent with risk management or internal control systems

- how middle management is involved in the process

- how company deals with breaches of company rules or codes of conduct.

Do not forget about other stakeholders, for example, what steps have been taken to ensure that suppliers meet expected standards of behaviour and practice.

Monitoring and measuring

The board should assess culture and challenge the executives on its support of both the strategic objectives and purpose over the short and longer terms. Boards should give careful thought to how culture is monitored and assessed and what sources of information are used.

Devote sufficient time and resources to evaluating culture to assure that the report provides clarity that:

- senior management are clear and supportive of the culture

- values are well defined and understood at all levels

- actions and behaviours at different levels of the firm are in line with culture.

Commenting on culture should consider quantitative and qualitative information gathered from different sources, rather than reliance on one method or measure and tracked over time.

Understand how technology can be used to collect, analyse, interpret, and present information.