

Nottingham City Council

Audit Committee

Minutes of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 26 November 2021 from 10.31 am - 1.55 pm

Membership

Present

Councillor Audra Wynter (Chair)
Councillor Michael Edwards
Councillor Jane Lakey
Councillor AJ Matsiko
Councillor Sajid Mohammed (Vice Chair)
Councillor Anne Peach
Councillor Ethan Radford
Councillor Andrew Rule

Absent

Councillor Graham Chapman

Colleagues, partners and others in attendance:

Beth Brown	- Head of Legal and Governance
Glyn Daykin	- Senior Accountant, Treasury Management
Elaine Fox	- Policy Development Officer
John Gregory	- Grant Thornton External Auditors
Clive Heaphy	- Interim Director of Strategic Finance
Steve Oakley	- Acting Director of Commissioning and Procurement
James Rhodes	- Head of Analysis and Insight
Shail Shah	- Head of Audit and Risk
John Slater	- Group Auditor
Caroline Stevens	- Principal Risk Specialist
Kate Morris	- Governance Officer

42 Apologies

Councillor Graham Chapman – Council Business

43 Declarations of Interests

None

44 Minutes

The minutes of the meeting held on 24 September 2021 were confirmed as a true record and were signed by the Chair.

45 Work Programme and Action Log

The Committee noted the work programme along with the inclusion of the sixth meeting date in April 2022 along with the action log.

46 Working Group Updates

The Chair invited the leads of the Working Groups to provide a short verbal update: and the following information was given:

- (a) In the absence of Councillor Graham Chapman, the Head of Audit & Risk informed the committee that the Anti-Fraud working group had developed a work plan proactively looking at fraud, work has been done around data matching focused on council tax single person discounts, and around business rates and reliefs. He highlighted that the Fraud Team identify the businesses not registered and not paying the correct business rates, they do not have the powers to enforce collection – the team will be carrying out a review to show how the service concerned has progressed issues identified;
- (b) Councillor Andrew Rule advised the Committee that the Companies working group had fed back on governance arrangements for Group Companies recommended inclusion of mechanisms in articles of association that prevent companies exposing the Council to risk, such as obtaining finance, without prior approval;
- (c) Councillor Michael Edwards informed the Committee that the Risk working group had seen the Corporate Risk Register and fed back to officers their thoughts on risks included. The working group has also met with IT security specialists within the Council and discussed the scale of work;
- (d) Councillor Jane Lakey advised the Committee that the Capital working group had not met since the last committee but had had some internal training to allow them to better understand the finance figures, and planned to meet on 9 December 2021.

47 Update on the Audit of the Councils Statutory Accounts 2019/20 and 2020/21

Clive Heaphy, Interim Corporate Director of Finance and Resources introduced the report updating the Committee on the progress of work on the Final Accounts for 2019/20 and 2020/21. He gave the following information:

- (a) External valuers for specialist assets have been appointed and their work for the 19/20 and 20/21 accounts will be underway in the New Year. Once the work for the 19/20 accounts is complete the work for the 20/21 accounts will be completed quickly as much of the information they need will already be established from work for 19/20 accounts;
- (b) The outstanding issue around accounts for Robin Hood Energy (RHE) does remain an issue as no Auditors Opinion exists for the RHE 19/20 accounts, and work on the 20/21 audit cannot be completed to provide an opinion as the accounts are incomplete. Grant Thornton technical staff continue to review the work previously carried out by RHE's external auditors to establish if sufficient assurances exists for the purpose of the group accounts to satisfy audit requirements without the need for qualification;

- (c) The issue with RHE accounts will not directly delay the production of the 21/22 accounts as the company was not part of the group at that point. There may however be a delay due to the 19/20 and 20/21 accounts;

Having sought assurance on continued progress and issues the Committee noted the update on the progress of the Audit of the Statutory Accounts for 2019/20 and 2020/21

48 External Audit Update

John Gregory, Grant Thornton External Auditor provided a brief update outlining the progress made on 19/20 and 20/21 accounts as detailed in the previous minute. He informed the committee that a fully updated written report would be provided to the next meeting. During comments and questions, the following information was highlighted:

- (a) Local Authorities across the country are facing significant challenges around financial stability. Core Cities are reporting that pressure on Adult Services and as a result of lost income from Covid, as well as increasing homelessness are adding to an increasingly difficult picture. The announcement of the spending settlement from central Government due in mid-December may help to alleviate some of this pressure;
- (b) Nottingham is in an unusual situation due to the risks taken in the past;
- (c) Officers continue to liaise with their counterparts from other Core Cities. Reviewing the positions within the Core Cities group and in comparison to similar cities.

The committee noted the update and thanked John Gregory for his attendance

49 Treasury Management 2021/22 Half Yearly Update

In a change to the published agenda the Chair took agenda item 12, Treasury Management 2021/22 Half Yearly Update, as the next item.

Glyn Daykin, Senior Accountant – Treasury Management, provided the half yearly updated required by the Chartered Institute of Public Finance and Accountancy (CIPFA). The report updates the Committee on Treasury Management activity from April 2021 to September 2021 and confirms compliance with prudential indicators. The following points were highlighted:

- (a) External debt continues to be reduced through repayment at natural maturity of loans. This puts the Council in a good position to reduce external debt by the amount required by the Recovery and Improvement Board. The Council continues to work closely with the Department for Levelling Up, Housing and Communities (DLUHC) as part of the Recovery and Improvement Plan to reduce debt;
- (b) Committee Members thanked Officers for the hard work they continue to deliver in order to reduce debt as required by the Recovery and Improvement Plan, but raised concerns that it inhibited investment in the city to tackle issues such as climate change. The Voluntary Debt Reduction Strategy is in place to

reduce debt in order to stabilise finances, the Council will then be able to look to future projects;

- (c) The Council is currently fairly well protected against interest rate rises as most debt has been secured using a fixed rate of interest. The LOBO type loans have 6 monthly terms for banks to change interest rates with an option for the Council to repay at that point but these loans generally have long terms. If the opportunity to repay them at no extra cost became available, that is something the Council would welcome;
- (d) The Interim Corporate Director for Finance and Resources is in regular contact with the DLUHC around the progress of the Recovery and Improvement Plan and indications are that the pace and scale of debt reduction is welcomed;
- (e) A training session planned for December 2021 for Committee Members will explore the finer details of Treasury Management. Committee members were asked to provide any specific questions to officers;

Resolved to note and acknowledge the treasury management actions taken in 2021/22 to 30 September 2021.

50 Council Plan and Corporate Performance Assurance

James Rhodes, Head of Analysis and Insight, and Elaine Fox, Corporate Policy and Performance Officer, introduced the Council Plan and Corporate Performance Assurance report to the Committee describing an enhanced and refreshed look at performance. They highlighted the following information:

- (a) In response to the ongoing refresh of the Council Plan and inclusion of statutory duties within the Plan, a comprehensive set of 470 Strategic Indicators have been developed looking at what is indicative of good performance for services across the Council;
- (b) These additional Indicators will be incorporated into the new Performance Management Framework which in turn feeds into discussions on performance at a departmental and corporate level, better informing the Leadership of the Council on performance;
- (c) The intention of the new Performance Framework is to encourage honest and accurate discussion on performance, and support the cultural change that is currently underway across the Council. This will allow for accountability and identification of issues at an early stage if targets are slipping, which in turn allows early action to be taken to correct it;
- (d) The framework is a live document and will be updated as requirements emerge or change. There are 470 strategic indicators, incorporating a number on statutory duties. There is a smaller subset, considered critical which can be escalated for review by the Corporate Leadership Team and Executive if deemed necessary. In addition to these statutory duty indicators there are 145 performance indicators that are also tracked from the Strategic Council Plan to help ensure that the 11 aims and plan outcome measures are met. All indicators are recorded on the Council's performance management system and are updated each period including a RAG rating and contextual narrative;

- (e) A new element to the Performance Framework is the planned introduction of Performance Clinics to allow dedicated time for robust review of indicators. These clinics will also build in accountability and consistency in approach across the Authority and encourage critical thinking;
- (f) The Performance Framework is linked to the appraisal system through individual business plans and service plans. This has made it possible to identify Officers responsible for specific indicators ensuing individual teams are aware of performance against the Council Plan;
- (g) As part of the Performance Framework the Chair of Overview and Scrutiny Committee will be provided with a quarterly performance monitoring report and will have the opportunity to raise queries on specific indicators. The Audit Committee are invited to let Officers have any suggestions on additional indicators, or amendments to those already in place that would help to improve assurance work;
- (h) The Companies Governance Executive Committee will receive reports on the Indicators from individual Companies, to ensure oversight of company performance;

During questions from Committee members and discussion the following points were raised:

- (i) The system used to capture and report performance indicator data is called Pentana and will link in other sources of data where it is available. The reports produced are Red, Amber, Green rated and give a narrative for each indicator. The system allows users to filter by directorate and portfolio allowing easier access to relevant information via a dashboard. Named Officers and Directors are responsible for adding performance data. These named individuals will receive reminder prompts from the system to input data at the right time, access to update data is restricted to the data owners;
- (j) A number of other Local Authorities use the similar performance reporting frameworks to that being developed by Nottingham City Council. The Council use the system to collect the data and build in the custom reporting that best suits the Council. The structure of the reporting is aimed at a directorate level with the majority of indicators not needing to be escalated;
- (k) There is no suggestion that information exchanged around performance in the past has not been honest, however the Council recognises that issues around some areas of performance could have been flagged for intervention at an earlier stage;
- (l) The system holds a lot of information, however regular reports will not look at all indicators, only those rated Amber or Red. It can also filter the report further, to only include the critical indicators, this allows a focus on the key statutory duties. This ensures a more holistic view of the Council's performance and gives a more rounded assessment of delivery of services;

- (m) The Performance Team are aware of the pressure on staff across the authority in terms of time and workload. Updating the system has been made as easy as possible with as little time requirement as is appropriate;
- (n) Accessing the Dashboard for an overview of performance within a specific area is quick and simple to achieve. Oracle also allows managers to see variances in budget and in conjunction with the performance clinics, when introduced, will allow better linkage of performance indicators with financial indicators. Managers can link this information into Departmental Risk Registers;
- (o) Reporting on the indicators The system is yet to go live fully, it is being introduced and should be fully online commence by the beginning of January 2022. There will be a bedding in period, as there is with all new systems, and it is anticipated that there will need to be updates and alterations to indicators in order to extract the information required. Corporate Directors and Portfolio Holders have already seen the effects of tighter oversight by managers;;
- (p) Committee members supported a move to more online reporting through this kind of system as a way of facilitating more thorough yet less time intensive performance management;

The Committee welcomed the opportunity to discuss the refreshed methodology for performance reporting and invited the Performance Team to attend the Risk Working Group for review of the Critical Indicators.

Resolved to:

- (1) Note the progress made on the Council's new Performance Management Framework;**
- (2) Note plans for full implementation of the Performance Management Framework and improvements in performance reporting across the Council**
- (3) To invite corporate performance officers to attend the Risk Working group to receive feedback on the scope of the Critical Indicators; and**
- (4) Receive an informal Teams briefing from the Interim Corporate Director of Finance and Resources on the Oracle fusion system.**

51 Internal Audit Update

Shail Shah, Head of Audit and Risk introduced the regular report to the committee, explaining that the format had been altered following requests from committee members for greater visibility of key issues and limited assurances. He informed the committee that the report is reviewed by the Corporate Leadership Team (CLT). He went on to highlight the following points:

- (a) About a third of the internal audits have limited assurances and about a third of recommendations made are high priority.

- (b) The CLT are supportive and focused on the bedding in of new processes to ensure departmental recommendation tracking becomes business as usual for Departments, improving assurances;

Through comments and questions from committee members the following points were highlighted:

- (c) The internal audit plan focuses on areas of greater risk, this report does not indicate that a third of the Council's services/functions have limited assurance.
- (d) Committee members raised concerns about a number of audits including IT security, decision making and that the procurement and contract management audit indicated a culture of departing from correct procedure and ignoring value for money. The Risk & Assurance Working Group has met with senior IT officers and discussed IT security in depth.
- (e) Culture is key to improvement and there is still work to be done around that. Compliance with Policies and procedures does need to be improved;
- (f) Sickness Management was raised as a concern, and the Head of Audit confirmed that a follow up Audit was due to take place shortly on this area. An update will be emailed to Committee members following the audit.
- (g) The Interim Corporate Director of Finance and Resources assured the Committee that both the CLT and the Departmental Leadership teams have also raised concerns about whether issues are being dealt with in a timely way. By having a focus on this report over time CLT will be able to gain assurance over these concerns and improvements will be seen;
- (h) There are action plans associated with all of the audits to support their progress through to significant assurance. These include time scales and recommendations but are not published with this report.

Resolved to:

- (1) receive an update from the Head of IT and Portfolio Holder for Finance and Resources on the Limited Assurance report for IT Security at the next Audit Committee meeting;**
- (2) note the progress reported in respect of high priority recommendation; and**
- (3) note other areas marked as Limited Assurance and review these within working groups and those of particular concern be selected to come back to a future meeting for more detailed consideration.**

52 Contract Management and Procurement Audits 2021

Steve Oakley, Head of Contracting and Procurement, introduced the report providing information to the Committee on 2, linked internal audits around Contract Management and Procurement Dispensations. He highlighted the following information:

- (a) A number of actions were highlighted for implementation across the Council to ensure that Contract Procedure Rules are complied with and best value for money is achieved. This will bring the Authority in line with best practice recommendations and allow robust process to be implemented around contract management and procurement;
- (b) The Audit of those procurements where dispensation was granted found that a significant number would have provided better value for money had it gone out to market for the full tender process. All these procurements were below Procurement Regulations thresholds;
- (c) The introduction of Oracle Fusion is changing the way contract management takes place. It is now not possible for a team to spend more the £25,000 a year without the procurement and contract management team being informed so that checks to ensure that the correct tender process/quotes are in place, can be made;
- (d) Procurement plans are being collated for all directorates so that there is a good understanding of what procurement activity needs to take place when to ensure continuation of service provision, but also to allow time for best value for money to be achieved. CLT and divisional meetings allow work on these procurement plans for each division to be put in place ;
- (e) The team are now working with PriceWaterhouseCooper (PWC), to analyse the spend data and establish by comparison to best practice whether best value has been obtained by the method of service provision and contract or direct provision arrangements in place. The aim is to spotlight areas which require further work;
- (f) Work is also underway to establish how Contract management can be done more efficiently and effectively across the Council, ensuring proactive rather than reactive working practices, with a procurement pipeline enabling the Council to get upstream of any issues and identifying areas that the procurement team needed to be aware of;
- (g) The contract management audit highlighted that systems currently in place are not reflective of best practice for contract management. New ways of working are being developed and implemented to ensure that best practice in contract management is established across all teams;
- (h) In recent years there has been a significant rise in the number of waivers of financial regulations to allow issuing of contracts without the full tender process taking place. A small number are for good reason, and could not have been avoided, however there are a large number that could have been avoided had best practice been in place. With the introduction of new working practices, there will be regular testing to ensure that best value for money is achieved. It will also ensure that suppliers do not get complacent and offer competitive pricing and good quality products/services;
- (i) Breaches of the Financial Regulations can result in comments by external auditors and qualifications being made within their annual report. However with the introduction of the new best practice methods this should be avoided;

Committee members asked a number of questions and commented on the content of the report. The following points were highlighted throughout the discussion:

- (j) Standard training for all colleagues involved in contract management and procurement is being developed with specialists being provided with training through the Government Commercial College. Training will also be available to Portfolio Holders to give a greater depth of understanding around methods and reasons for best practice;
- (k) Procurement plans are being established for all directorates to ensure proactive work on procurement rather than reactive work that requires dispensation from contract procedure rules. This will ensure best value as well as ensuring continuity of services;
- (l) Any contract issued with a value over £25,000 will be published on the contracts register. This is a result of the controls implemented in Oracle Fusion. In the past this has not always been the case. Officers lead the process of procurement and the contract is awarded to the most competitive bidder according to predefined criteria.
- (m) There is no scope for Officers or Councillors to influence the selection or put pressure on the procuring team to choose a specific contractor. Procurement processes include declarations of interest process where there could be a perception of bias. Procurement arrangements delegate contract award to named officers.
- (n) Political interference with appointment of contract providers is illegal. The Procurement and Contract Management Team regularly monitor what is happening at other councils across the country where regulators find breaches. The team then compare working practices to establish if any changes need to be made in Nottingham to fully conform to best practice;
- (o) The new arrangements would enable the Council to be clear about existing and future procurement, to comply with regulations and best practice, to manage workload based on value and risk through agreed additional capacity, and to drive social and environmental value including the Council's Carbon Neutral agenda through a new Procurement Plan.
- (p) The Interim Corporate Director of Finance and Resources confirmed that despite the expense of working with external partners, like PWC, it would be possible to demonstrate savings that outweigh the expense;
- (q) Committee members felt that a method to review how Area Based Grants are spent and Council funding of other organisations would be beneficial. This area of spend is monitored and will be subject to the new, best practice ways of working. The Interim Corporate Director for Finance and Resources agreed that this was a good challenge from the Committee and confirmed that he would take this away and look closely at it including consideration of declarations of interest and in year review of related party transactions;
- (r) Group Companies have a degree of independence, and whilst it is possible to try to establish a consistent policy through the Shareholder Unit, companies are not bound by the same rules as Local Authorities around contract

procedure. It is possible to enact a Group Standard, within which the companies have operational freedom, and act within the particular regulations that apply to them;

The Chair agreed that following on from work by PWC, Steve Oakley, Head of Contracting and Procurement, in consultation with her, would pick out high value contracts to bring back to a future committee date.

Resolved to:

- (1) Note the actions already completed in response to the internal audits, and the impact of these actions on assurance;**
- (2) Note the actions planned and being implemented, and the impact that these will have on future assurance; and**
- (3) Note the use of PWC to support improvements.**

53 Retender of External Audit for 2023/24 to 2027/28

Shail Shah, Head of Audit and Risk, introduced the report seeking endorsement for proposal to Council for the retender for an External Audit for 2023/24 to 2027/28. During discussion on the item the following points were highlighted:

- (a) The current contract for External Audit is due for renewal and previously the Council has been part of the national procurement managed by Public Sector Audit Appointments (PSAA). Opting in to this arrangement is expected to lead to better value for money for the Councils involved;
- (b) The report recommends that the Committee endorse the use of the PSAA process. This will deliver cost effective procurement for the Council;
- (c) By the time the new External Audit contract is in place all matters relating to Robin Hood Energy and outstanding accounts will have been completed;
- (d) Independent procurement would be very time consuming and labour intensive and runs a significant risk of failing to attract firms able to work to National standards for audit of Local Authorities determined by the National Audit Office. Some Authorities have procured as a group with the local NHS trusts, but there is no appetite from comparable organisations locally to get together for independent procurement;

Resolved to endorse the proposal to Council that it accepts Public Sector Audit Appointments invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for 5 financial years from 1 April 2023.

54 Companies Governance Update

Clive Heaphy, Interim Corporate Director for Finance and Resources introduced the report updating the Committee on the improvement work around Companies Governance highlighting the following points:

- (a) Work continues to take place with the Chartered Institute for Public Finance and Accountancy (CIPFA) around drawing together and implementing best practice models for the Shareholder unit. This ensures that the Council is working to nationally recognised best practice standards;
- (b) A variety of controls are being introduced ranging from Director Knowledge and Skills evaluations as part of board evaluations to evaluation of finance and risk returns from each company. The controls are designed to better define roles and expectations of the companies and the way the Authority works with them;
- (c) The new controls are designed to highlight at the earliest opportunity any concerns around a company's performance, allowing mitigating action to be taken at the earlier point possible. A comprehensive cycle of checks and assessments have been introduced to ensure solid, reliable information is fed to the Council in a timely manner;

During discussion the following points were made:

- (d) The thorough exchange of information between group companies and the Council allows the Council to have assurance that they will be aware of issues before they develop too far. The Shareholder unit is designed to ensure that best practice is embedded into each company;
- (e) The Shareholder unit will be made aware when a company director resigns. It may be prudent that they liaise with the director for feedback;
- (f) The Companies Governance Executive Committee is in place to assess the information coming from the Companies. The Audit Committee's role is to seek assurance that there is a robust and comprehensive framework of controls in place to achieve this;

Resolved to note the progress and future plans for ongoing development and implementation of companies governance in accordance with the Recovery and Improvement Plan.

55 Recovery and Improvement - Culture Update

Clive Heaphy, Interim Corporate Director for Finance and Resources introduced the Recovery and Improvement Culture Update report to the Committee outlining the actions taken to embed good practice throughout the council as part of the Recovery and Improvement Programme as set out in the report. He highlighted the following points:

- (a) A new Director of Transformation, Richard Grice, has been appointed and that the development of the programme of transformation was progressing at pace;
- (b) There is an increased sense that a culture of challenge is being adopted and used within Nottingham City Council. Colleagues are more open and empowered to question each other and offer that check and challenge environment that is critical to the success of transformation;

Resolved to

- (1) Note the actions referred to in relation to embedding good practice outlined in the Internal Review Report of Culture and Ethics brought to the Audit Committee in May 2021; and**
- (2) Note that future updates and assurance on the Culture workstream in the Recovery and Improvement Plan will be undertaken through the existing monitoring and assurance that take place through the Improvement and Assurance Board.**

56 Risk Management and Corporate Risk and Assurance Register Update

Shail Shah, Head of Risk and Audit, and Caroline Stevens, Principal Risk Specialist introduced the report presenting the Corporate Risk and Assurance Register to the Committee advising that this register had been reviewed by the Corporate Leadership Team (CLT) The following points were highlighted:

- (a) The Risk and Assurance Register has been refined and looks slightly different to the one presented previously. These changes have been made to include the relevant and essential information needed for a review at leadership level. More detailed information is held locally with officers and can be shared for closer review where necessary;
- (b) Workshops have been delivered to Departmental Leadership Teams (DLT) and to CLT to begin work to establish risk appetite. There will be further workshops taking place to increase awareness of the risk appetite when agreed and newly combined Risk and Assurance register. Online training for officers has been developed and rolled out;
- (c) The combined Risk and Assurance register gives a greater transparency of information to Officers and to Members. However it is not possible to predict all events;

During discussion the following points were made:

- (d) The Risk Working group looks at the register and poses questions to officers to further understand details of risk and encourage critical thinking;

The Committee will review the full risk register within the exempt item.

Resolved to note the progress made to review existing processes and further embed Risk Management across the Council

57 Exclusion of the Public

The Committee decided to exclude the public from the meeting during consideration of the remaining agenda item(s) 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(s) 3 of Part 1 of Schedule 12A to the Act

Audit Committee - 26.11.21

The meeting was adjourned at 13:32 to allow for a short comfort break and reconvened at 13:36.

58 Exempt Minutes

In a change to the published agenda the Chair moved the exempt minutes to item 16.

The exempt minutes of the meeting held on 24 September 2021 were confirmed as a true record and were signed by the Chair.

59 Risk Management and Corporate Risk and Assurance Register Update - Exempt Appendices

The Committee considered the exempt appendices of the risk Management and Corporate Risk Assurance Register Update, presented by Caroline Stevens, Principal Risk Specialist.

Following discussions detailed in the exempt minutes the Committee noted the content of the exempt appendices.

60 Internal Audit Update - Exempt Appendix

The Committee noted the information contained with the Exempt appendix.