

## Audit Committee – 23 February 2024

<b>Title of paper:</b>	Finance Improvement Plan Update	
<b>Corporate Director(s) / Director(s):</b>	Ross Brown – Corporate Director of Finance and Resources (S151 Officer)  Shabana Kausar - Director of Finance and Deputy S151 Officer	<b>Wards affected:</b> All
<b>Author:</b>	Toyin Bamidele (Finance Improvement Programme Lead)	
<b>Other Colleagues who have provided input:</b>	Glenn Hammons (Technical Finance Team Leader)	
<b>Does this report contain any information that is exempt from publication?</b> No		
<b>Recommendation(s):</b>		
1.	To note the progress to date on the Finance Improvement Plan and remediation controls project	
2.	To note the progress in achieving the City Council’s Finance Improvement Plan (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	

### 1 Purpose

- 1.1 To present Audit Committee with an update on the Council’s Finance Improvement Plan and provide a progress update on the finance improvement programme.

### 2 Background

- 2.1 The Council’s financial management improvement independent review focused on ensuring excellent financial management at Nottingham City Council (NCC) was commissioned in January 2023.
- 2.2 The Finance Improvement Plan (FIP) is being delivered within eight themes and each theme has a number of comprehensive deliverables/actions.
- 2.3 To establish how the financial control environment develops through the life of the FIP and to ensure the outcomes from the FIP deliverables provides the professional standards expected of a council, each of the improvement

deliverables/actions have been mapped to the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code).

- 2.4 The deliverables within the FIP have been designed to ensure the necessary foundations for effective financial controls, data integrity, ownership and accountability framework are in place.
- 2.5 Appendix 1 provides an insight into the specific improvements delivered in the last 12 months to January 2024, whilst Appendix 2 provides key activities planned to be undertaken to the end of February 2024.

### **3 Improvement and Assurance Board Additional Instruction**

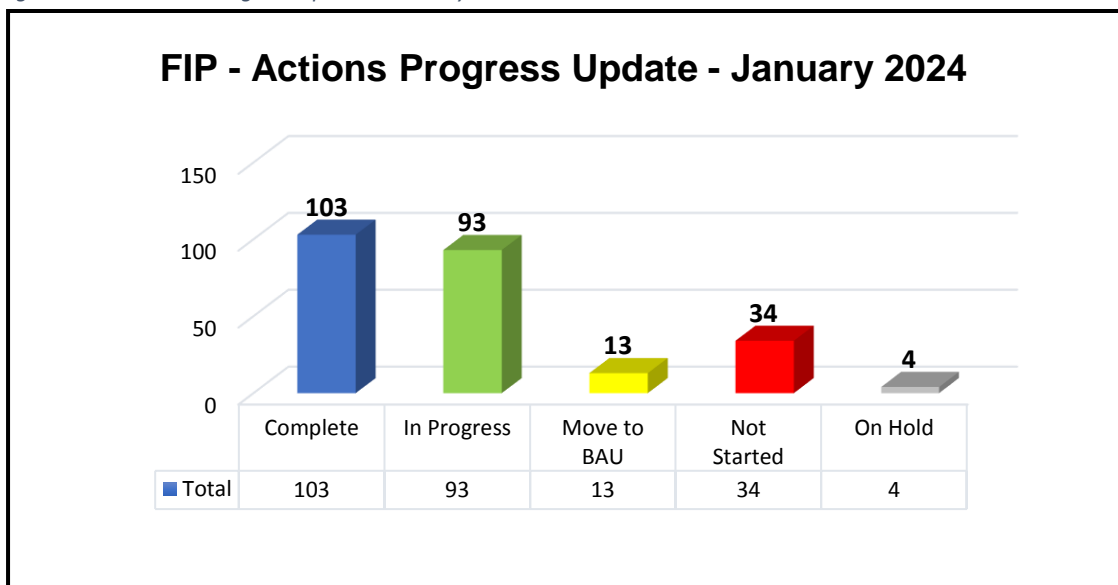
- 3.1 At the formal Improvement and Assurance Board (IAB) meeting on 25 January, the IAB issued a further two Finance Instructions effective from 25 January 2024.
- 3.2 Flowing directly from the existing IAB instructions – namely, ‘2.1, Approval of wholly realistic plans and budgets’ and ‘2.2, Establish and Maintain a sound and prudent reserves policy and practice’ – the IAB further instructions are as follows:
  - 1. 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’
  - 2. 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.
- 3.3 A separate report providing an update on IAB finance instructions is being presented at the same Audit Committee meeting as this report.

### **4 Finance Improvement Plan (FIP) Update – Plan and Delivery**

- 4.1 The issuing of a Section 114 notice in November 2023 and priority of setting a balanced budget for 2024/25 has resulted in the need to revisit and reprioritise the Council’s approach to sustain sound financial stewardship of the Council’s resources and safeguard financial resilience across NCC.
- 4.2 Good financial management is a pre-requisite of any successful organisation therefore, the improvements within the FIP continue to be tackled comprehensively and in a co-ordinated way with the focus on ensuring absolute organisational confidence in the Council’s financial management.

- 4.3 The FIP continues to deliver good progress despite the capacity issues within the team particularly as the Council embraces a spend control policy and a culture of living within its means whilst focusing on its priorities.
- 4.4 The FIP has delivered several substantial achievements over the last 12 months. Details of actions delivered to January 2024 is provided as Appendix 1. There are currently 247 deliverables within the FIP of which 47% have been adopted, implemented and/or embedded into business as usual (BAU).
- 4.5 As illustrated in figure 1 below, of the 247 clearly defined financial improvement deliverables/actions identified as of January 2024, 42% are completed, 38% are in progress, 14% are not started due to dependencies on other actions which are currently in progress, 1% is on hold due to dependences on other activities and 5% have been reclassified as business as usual (BAU). The actions labelled as BAU are being embedded and will be refreshed on a cyclical basis.

Figure 1 - FIP Actions Progress Update – January 2024



- 4.6 As expected from an organisation with significant financial challenges, staffing, management and leadership capacity as well as staff retention are the key risks of not delivering the FIP activities particularly as the same limited resources are required to support the Council’s spend control exercise, business as usual activities and the Council’s journey to Financial Resilience and Sustainability.
- 4.7 The Corporate Director of Finance and Resources (Section 151 Officer) and Director of Finance and Deputy Section 151 Officer working with the Corporate Leadership Team will continue to review the available resources alongside the Council’s target operating model to ensure the relevant capacity and capabilities required for delivering great financial management are in place and maintained.

## 5 Finalising the statutory accounts for 2019/20 – 2022/23

- 5.1 As reported to the Audit Committee in November 2023, the Council has four sets of accounts that should have already been published with audit opinions however, due to issues with property valuations for specialist assets and with subsidiary company figures required for group accounts these accounts are yet to be published
- 5.2 Since the last update to the Board in November, the Council has received further clarification questions from Grant Thornton on the 2019/20 draft accounts. All of these have been responded to. None of these questions has resulted in any further changes to the updated draft 2019/20 Statement of Accounts provided to Grant Thornton on 8 November reflecting all known agreed changes. However, these still need to be considered by Grant Thornton’s internal review and assurance processes before an audit opinion can be provided. There is a risk further queries maybe raised during the review and assurance process.
- 5.3 Details of the accounts progress are set out in a separate report which is being presented to Audit Committee at the same meeting. The table below provides a summary overview of the position, as reported to Audit Committee, to end of February 2024 in resolving audit queries with regards to accounting years 2019/20 to 2022/23.

Table 1- Statutory Accounts Update

Financial Year	Audit Queries	Progress as at 2 February 2024	Expected Progress to end of February 2024
2019/20	<ul style="list-style-type: none"> <li>All requests received have been responded to by the Council.</li> <li>Revised draft accounts submitted to Grant Thornton on 8 November 2023 incorporating all identified changes at that time.</li> <li>Grant Thornton are progressing the Accounts through their Quality Assurance processes.</li> </ul>	100%	100%
2020/21	<ul style="list-style-type: none"> <li>Audit not yet commenced.</li> <li>Revised draft accounts were completed in December 2023.</li> </ul>	100%	100%
2021/22	<ul style="list-style-type: none"> <li>Audit not yet commenced.</li> <li>Draft accounts are expected to be ready for publication by mid-March 2024.</li> </ul>	80%	90%
2022/23	<ul style="list-style-type: none"> <li>Audit not yet commenced.</li> <li>Draft accounts are expected to be ready for publication by end May 2024.</li> </ul>	50%	60%

## 6 Financial Controls Remediation Project

### 6.1 Background

- 6.1.1 In June 2023, this committee was presented with the outcomes of the Council's Control Environment review specifically the findings of the Controls Assessment undertaken by Ernst & Young (EY), which reinforces a conclusion that the Council was operating with a considerably weakened control environment which is not fit for purpose in allowing a Local Authority to enact effective financial stewardship.
- 6.1.2 EY observed a weak control environment, ineffective systems, associated management information and a culture which was not focused upon compliance. Specific areas of concern detailed within the 'Financial Controls Assessment' report to Audit Committee meeting in June 2023 included:
- a) Issues with ineffective audit trail
  - b) A high incidence of issues across the sample such as transaction classification and approvals
  - c) Limited preventative and detective controls
  - d) A culture where policy adherence and knowledge is weak
  - e) A high risk of controls being circumnavigated through management override
- 6.1.3 As set out in the Local Government Act 1972, councils are required to ensure that they have in place arrangements for the proper administration of their financial affairs. EY's findings of the financial controls assessment underpinned a conclusion that the Council was operating with a considerably weakened control environment which was not fit for purpose in allowing a Local Authority to enact effective financial stewardship. The EY report highlighted these weaknesses have both historically existed and are currently present in the financial control environment, infrastructure, and culture of the organisation, which limit the Council's ability to effectively discharge its legislative responsibilities.
- 6.1.4 The Council recognised the fundamental weakness in the control environment the EY report set out and accepted that a significant amount of work was required, over a prolonged period, to address the shortcomings highlighted explicitly in the findings.
- 6.1.5 As much as the findings quite rightly focus on the system and process failings, the cultural and organisational limitations should not be lost as it is a significant contributing factor in the matters raised. Rectification of the issues is much more than simply putting in new procedures, it is about re-establishing and reinforcing a culture of financial accountability and compliance across all areas of the Council's decision making and processes.
- 6.1.6 As set out in the Financial Controls Assessment report to Audit Committee meeting in June 2023, to mitigate the risks caused by the weakened control environment, immediate interventions were required. The first step involves the rapid assessment and remediation of ten specific control issue areas. Phase 1 of the remediation work is to ensure the Council has the essential basics in place, although it is anticipated that further work will be required

including investment in finance systems to provide the most effective control environment.

## 6.2 Financial Controls Remediation Project

6.2.1 As previously reported to the Audit Committee, EY were commissioned to undertake a 12-week focused controls remediation project in July 2023 seeking to ensure the Council has the essential basics controls in place. Throughout this period EY worked collaboratively with officers to investigate each control weakness across the process areas and to develop remediation procedures.

6.2.2 The control remediation project was focused on three themes:

- The establishment of interim controls to establish grip in relation to identified control weaknesses
- A Council wide review to determine the prevalence of identified issues across the Council and the group structure; and,
- Alignment of control remediation activities into the FIP and ensuring transition of ownership and knowledge to officers.

6.2.3 The control remediation project was completed by EY in September 2023 and 38 remediation activities were identified. The Finance team have worked collaboratively with EY to map the 38 identified remediation control project actions to the FIP to ensure improved control and accountability.

6.2.4 All 38 remediation activities have agreed controls in place and as at January 2024, 27 (71%) of the 38 remediation activities have been implemented and the remaining 11 (29%) are in progress. Table 2 below provides a summary of the progress against each control theme.

Table 2 - Remediation Controls Progress

Remediation Control Themes and specific areas		Controls Agreed and Implemented	Remediations designed, implementation in progress	Total
Core Financial Process	1. Grant Receive to Record	4	0	4
	2. Purchase to Pay	2	2	4
	3. Record to Report	3	3	6
	4. Goods Receipting	4	0	4
Organisational Wide Process	5. Procurement Process	4	0	4
	6. Service Recharges	6	0	6
	7. HR and Expenses Process	0	1	1
Financial Systems	8. System Reporting	2	0	2
	9. Segregation of Certain Financial Activities	1	4	5

Remediation Control Themes and specific areas		Controls Agreed and Implemented	Remediations designed, implementation in progress	Total
	10. Systems Access	1	1	2
<b>Total</b>	<b>No</b>	<b>27</b>	<b>11</b>	<b>38</b>
	<b>%</b>	<b>71%</b>	<b>29%</b>	<b>100%</b>

6.2.5 As previously reported, some of the remediation actions have a longer lead in time for implementation which has been agreed with EY. Summarised below are the 11 remediation actions that are in progress:

- 1) Purchase to Pay – 2 actions linked to enforcing the ‘No PO No Pay’ policy compliance with a view to completing the necessary actions by the end of this financial year to embed the policy from 1 April 2024.
- 2) Record to Report – 3 actions in relation to Oracle Fusion System improvements with regards to the Capital Module currently expected to be completed in by April 2024. The activities include system changes, updating processes and general communications which will enhance current process.
- 3) HR and Expenses Process - training for budget managers to be rolled by end of the financial year.
- 4) Segregation of Certain Financial Activities – 4 actions on coding structure improvement for ring-fenced account, associated monitoring process, training and communication to be completed by end of the financial year all of which are an improvement to the current process.
- 5) System Access – the action outstanding is dependent on EMSS creating a job on Oracle Fusion which will allow the Finance team to run and review temporary approval delegations on a regular basis. This is currently expected to be fully completed in April 2024.

6.2.6 The majority of the remediation actions identified are directly or indirectly linked to the closure of accounts process therefore, officers have been in discussions with EY for a health check during 2024/25. This will enable the Council to learn lessons from this activity and both reflect and incorporate these within the FIP and BAU activities.

6.2.7 Although good progress has been achieved on our journey in improving and establishing the financial control environment, it is important that we do not consider this to be the end of the process. We will have put in place the essential basic interim financial controls that allows the Council to discharge its financial duty as set out under Local Government Act 1972.

## 7 Financial Implications

7.1 The Local Government Act 1972 requires the Council to make arrangements for the proper administration of their financial affairs and shall secure one of their officers with the responsibility for the administration of those affairs.

7.2 The S151 officer has a Financial Improvement Plan in place which has been refreshed to demonstrate how CIPFA's Excellence in Finance model will be implemented over the lifetime of the plan, giving the Council the assurance, it requires in relation to this statutory duty.

7.3 It is important to note that the FIP is an evolving document and will be continuously updated and expanded to reflect outcome of particular pieces of work such as the remediation control project, establishment control, which may require additional resources.

## **8 Legal Comments**

8.1 There are no legal implications to be noted at this stage.

## **9 Commercial and Procurement Comments**

9.1 There are no implications with regards to procurement contained within this report.

## **10 HR and EDI Considerations:**

10.1 There are no implications with regards to HR and EDI contained within this report.

## **11 Risk Management Considerations**

11.1 As set out in the report above staffing capacity and retention remains a key risk for the service in not just delivering the FIP activities but also managing key business as usual (BAU) activities such as the budget process and budget monitoring. This is being reviewed continuously and activities and deliverables being reviewed and reprioritised accordingly.

### **11.2 Published documents referred to in compiling this report**

- Audit Committee 24 February 2024 - Statement of Accounts Progress Update
- Audit Committee 30 June 2023 - Financial Controls Assessment