

Audit Committee – 28 June 2024

Title of paper:	Finance Improvement Plan Progress Update	
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Does this report contain any information that is exempt from publication? No		
<p>Brief Summary To present the Audit Committee with an update on the progress made against the Council's Finance Improvement Plan since the last reported position to the committee in March 2024.</p> <p>This report also provides the Audit Committee with an update on the following areas related to finance activity:</p> <ul style="list-style-type: none"> • Statutory Accounts for 2019/20 – 2022/23 • Financial Accountability Framework • Financial Controls Remediation Project 		
Recommendation(s):		
1	To consider assurance from the governance arrangements in place in relation to the delivering the City Council's Finance Improvement Plan (FIP).	
2	To recognise the specific improvements delivered since the last update to the committee in March 2024 (Section 3).	
3	To take assurance in the progress being made on the following finance related activities: <ul style="list-style-type: none"> ▪ Statutory Accounts for 2019/20 – 2022/23 (Section 4). ▪ Financial Accountability Framework (Section 5). ▪ Financial Controls Remediation Project (Section 6). 	

1 Reasons for recommendations

1.1 The Audit Committee's terms of reference include to:

Governance, Risk & Control

- Review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance

- Consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements
- Monitor progress in addressing risk-related issues reported to the committee
- Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions
- Consider arrangements for and the merits of operating quality assurance and performance management processes

2 Background

- 2.1 Improvements to the Council's financial governance, financial management, control, and reporting framework are at the heart of the Council's improvement agenda and are an area of high priority for the Statutory Improvement and Assurance Board appointed by DLUHC to oversee the delivery of the Council's improvement plans.
- 2.2 As a result, the FIP was developed to achieve good financial management as defined by CIPFA's Financial Management Model and the deliverables designed to ensure the necessary foundations for effective financial controls, data integrity, ownership and accountability framework.
- 2.3 This Committee was presented with the progress made in delivering the Council's Finance Improvement Plan (FIP) at the last Audit Committee in March 2024.
- 2.4 This report provides an update on the Finance Improvement Plan (FIP), the specific improvements delivered since the last update in March 2024 and the planned FIP activities to the end of June 2024.

3. Finance Improvement Plan (FIP) Progress Update

- 3.1 The City Council continue to face significant financial resilience challenges with the need to balance its structural budget gap and repay the Exceptional Financial Support (EFS) in the face of increasing service pressures and the need to deliver significant efficiency savings.
- 3.2 Notwithstanding with the financial challenges, the limited resources and system functionality and development constraints, officers continue to constantly explore new opportunity to implement improvements where possible.
- 3.3 The key risk to the delivery of the FIP remains staffing, management and leadership capacity as well as staff retention mostly as the same limited resources are required to support the Council's day to day core activities as well as the Council's journey to Financial Resilience and Sustainability.
- 3.4 The FIP is a live plan with new improvement actions being added to the plan as they are identified. Since the last report to this Committee in March 2024, six new improvement actions have been added to the plan resulting in a total of 254 improvement actions as at the end of May 2024.

3.5 The FIP continues to deliver steady progress and an outline of the specific improvements achieved since the last update to the committee in March 2024 is shown in detail at Appendix 1.

3.6 As at the end of May 2024, 130 improvement actions have been delivered and embedded into Business as usual (BAU) whilst 87 actions are in progress of delivering resulting in 85% of the 254 financial deliverables identified as at the end of May 2024 has either completed, embedded into business as usual (BAU) or in progress. Figure 1 below illustrates the progress update across the programme whilst Figure 2 and Table 1 provides progress update by the eight agreed FIP themes.

Figure 1- Financial Improvement Plan - Progress Update - May 24

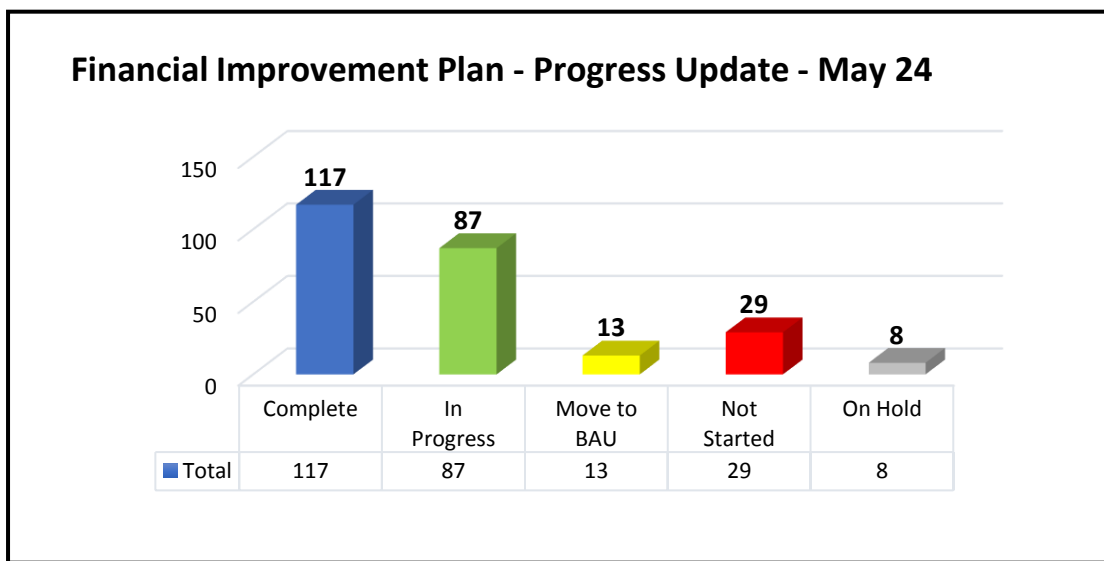


Figure 2 - FIP Progress Update by Theme

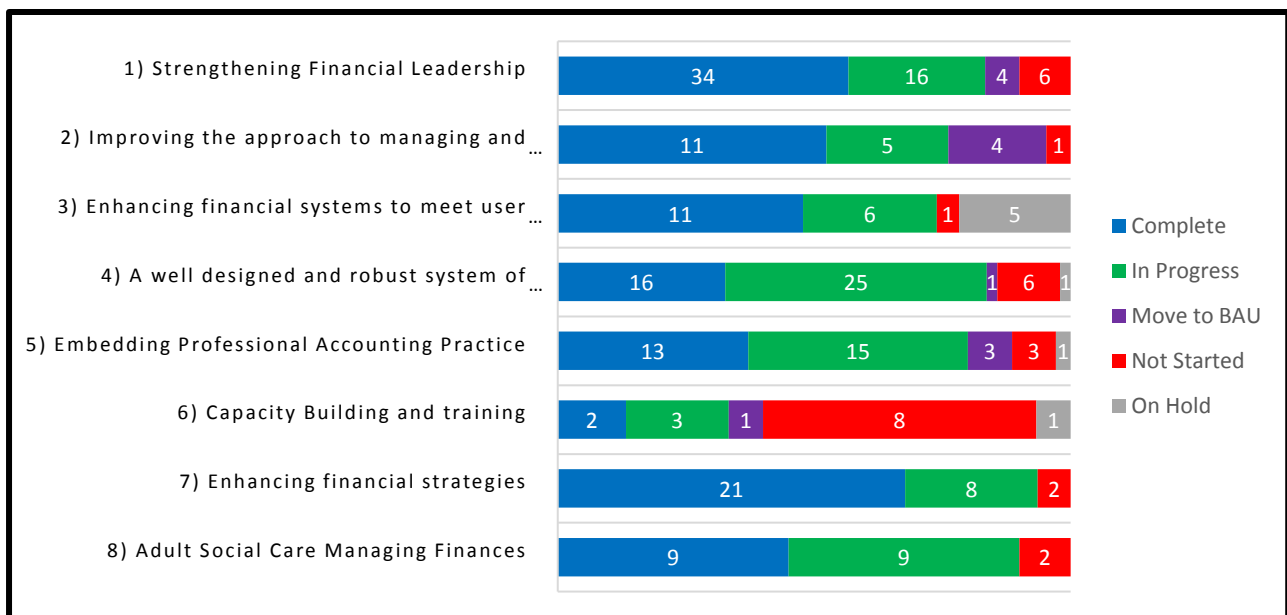


Table 1 - FIP Progress Update by Themes

FIP Theme	Actions
1) Strengthening Financial Leadership	60
2) Improving the approach to managing and governing the capital programme	21
3) Enhancing financial systems to meet user needs	23
4) A well designed and robust system of internal financial control	49
5) Embedding Professional Accounting Practice	35
6) Capacity Building and training	15
7) Enhancing financial strategies	31
8) Adult Social Care Managing Finances	20
Total Deliverable as at May 2024	254
Total Completed, Moved to BAU and In Progress	217
% Completed, Moved to BAU and In Progress	85%

4. Statutory Accounts Update

- 4.1 As reported to the Audit Committee in March 2024, the Council has four sets of accounts (2019/20, 2020/21, 2021/22 and 2022/23) 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.
- 4.2 Since the last update to the Committee in March 24, the Council is working on the production of the 2023/24 draft accounts.

Statutory Accounts for 2019/20 – 2022/23 progress Update

- 4.3 The Council has prepared a plan for publishing the draft Accounts for all outstanding years. This includes reporting to Audit Committee and public inspection. The finalisation of this plan is dependent upon the conclusion of the 2019/20 audit process and the national proposals to address the local government audit backlog.
- 4.4 The updated draft accounts for 2019/20 were provided to Grant Thornton in November 2023 following the revisions made to the 2019/20 accounts to incorporate the revised valuation information for specialist assets, to amend group accounts, to adjust for issues with the Housing Revenue Account and to address other issues identified during the audit.
- 4.5 Details of the accounts progress and associated risks are set out in a separate report which is being presented to Audit Committee at the same meeting. Table 2 below provides a summary overview of the progress made as at 7th June 2024 and the expected progress to the end of June in regards to accounting years 2019/20 to 2022/23.

Table 2 - Statutory Accounts for 2019/20 – 2022/23 Update

Financial Year	Producing Outstanding Accounts	Progress as at 7 June 2024	Expected Progress to end of June 2024
2019/20	All requests received have been responded to by the Council. Revised draft accounts submitted to Grant Thornton on 8 November 2023 incorporating all identified changes at that time. Grant Thornton are progressing the Accounts through their Quality Assurance processes.	100%	100%
2020/21	Audit not yet commenced. Revised draft accounts were completed in December 2023.	100%	100%
2021/22	Audit not yet commenced. Draft accounts were completed in May 2024.	100%	100%
2022/23	Audit not yet commenced. Draft accounts are expected to be ready for publication by mid July 2024.	80%	85%

5. Financial Accountabilities' Framework (FAF)

- 5.1 The 29 September 2023 FIP update report to Audit Committee advised this committee of the Council wide Financial Accountabilities Framework which was been produced as a guide to the key roles and responsibilities that support excellent financial management at Nottingham City Council (NCC).
- 5.2 The Framework does not seek to replace the Council's Financial Regulations. The Council's Constitution and Financial Regulations are the detailed description of the way the Council operates in relation to financial management and financial administration.
- 5.3 To ensure improved organisational skills in financial management and improved compliance with financial processes and regulations are streamlined and made easier to use, the widely used RACI (Responsible, Accountable, Consulted, Informed) methodology which is especially useful in clarifying roles and responsibilities in cross-organisational processes and adapted to better suit NCC working pattern was used to build the framework.

Financial Accountabilities' Framework (FAF) Update

- 5.4 The FAF was launched on the 28 March 2024 effective from 1 April 2024 following consultation with Corporate Leadership Team and the Human Resources (HR) department to ensure the framework is adequately entrenched to help officers in understanding their roles and how they support others.

- 5.5 Since the launch at the end of March 2024, there have been several briefings and workshops with the Corporate Leadership Team, Directorate Leadership Teams, the Senior Leadership Forum and the Finance team to successfully embed the Framework across the Organisation.
- 5.6 Furthermore, the FAF has been aligned to behavioural expectations through the Individual Performance Review Process (IPR) and Behaviours – Performance management and Induction Booklets and relevant Policies have been updated to reflect the framework.
- 5.7 There have been four mandatory financial management training sessions in May (103 budget holders attended) and additional four sessions arranged for June 2024. Ongoing Development and Support for Officers has also been made available.
- 5.8 The detailed Financial Accountability Framework is appended to this report as Appendix 2.

6. Financial Controls Remediation Project

Background

- 6.1 NCC commissioned Ernst & Young (EY) to undertake an external review in respect of 6 ring-fenced areas, that would identify policies, procedures, financial records and data and carry out testing on a sample of historical transactions with a view to commenting on the operation of the controls in place and the overall control environment.
- 6.2 The Audit Committee in June 2023 were presented with EY's findings which highlighted fundamental weakness in the Councils control environment that requires significant amount of work, over a prolonged period, in addressing the shortcomings highlighted in their findings.
- 6.3 Although, the findings focused on system and process failings, the cultural and organisational limitations should not be lost as it is a significant contributing factor in the matters raised, and rectification of the issues is much more than simply putting in new procedures.
- 6.4 The EY report findings led to the Council requiring urgent intervention to establish grip and mitigate the risk caused by the weakened control environment focusing on following three matters:
- 1) The establishment of interim controls to establish grip in relation to identified control weaknesses.
 - 2) Council wide review to determine the prevalence of identified issues across NCC's organisation and group structure.
 - 3) Alignment of control remediation activities to FIP and ensuring transition of ownership and knowledge to council officers.

6.5 EY grouped the control weaknesses into ten process areas across three key themes and developed the following four-step approach to remediate the control weaknesses identified:

- Step 1 – Rapid intervention on identified issues within areas in scope
- Step 2 – NCC and Group Wide Controls Health Check
- Step 3 – Implement newly scoped controls across the group
- Step 4 – Establishing Grip Report

6.6 Over a 12 week period, the finance team worked collaboratively with EY to map the identified remediation control actions to the FIP to ensure improved control and accountability. Whilst in parallel, EY was working in collaboration with officers to investigate each control weakness across the process areas and to develop remediation procedures.

Controls Remediation Update

6.7 A total of 38 remediation activities were identified with agreed controls in place for each remediation activities. As at the end of May 79% have been fully implemented (68% as reported in November 2023) with 21% with implementation in progress. Table 3 below provides a summary of the progress against each control theme.

Table 3 - Controls Remediation Progress Update

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	1	3	4
	3. Record to Report	5	1	6
	4. Goods Receipting	4	0	4
Organisation Wide Process	5. Procurement Process	4	0	4
	6. Service Recharges	6	0	6
	7. HR and Expenses Process	1	0	1
Financial Systems	8. System Reporting	2	0	2
	9. Segregation of Certain Financial Activities	1	4	5
	10. Systems Access	2	0	2
Total	No	30	8	38
	%	79%	21%	100%

6.8 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 8 remediation actions that are in progress:

- 1) Purchase to Pay – 3 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 July 2024.

Since issuance of Section 114(3) report at the end of November 2023, a soft implementation of the No PO No Pay policy has been in play. This has allowed sufficient time for providers, services and finance to transition to the policy before finance implemented a formal go-live date.

The number of invoices presented without a Purchase Order (PO) has reduced from 600 in November 2023 to an average of around 100 per month and retrospective PO’s (orders raised after the invoice has been received) has reduced from an average of 500 to 100-150. This represents a significant step towards strengthening our financial controls, enhancing transparency, ensuring that all expenditures are properly authorised and accounted for, and contributing to our overall efficiency and accountability.

A communication was issued to all managers on 16 May 2024 advising of the changes and informing managers that effective immediately, all purchases made must be accompanied by an approved PO in order for payment to be processed.

Managers were also reminded of the actions required between now and formal go live for enforcing the strict No PO No Pay policy from 1 July 2024. This includes the need to seek approval for PO exemption where this is deemed appropriate (subject to the approval of the Spend Control Board).

It is currently taking longer than originally envisaged to automate for the system to reject invoices if there is no PO number or an approved exempt supplier. This delay will not impact on the Council going live on 1 July 2024 and therefore enforcing its No PO No Pay policy, as information to undertake is currently available through dashboard developed last year.

- 2) Record to Report – 1 action in relation to Oracle Fusion System improvements with regards to the Capital Module is currently expected to be completed in July 2024. In preparation for the implementation,
 - Training have been provided to relevant finance officers on system
 - Stress Testing and Data upload is planned for mid-June 2024. The stress testing would help officers appreciate the resilience level of the improvements made to the module.
 - Budget manager training is planned for July 2024
- 3) 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 September 2024 all of which are an improvement to the current process.

The Taxis' licences model coding structure have been set-up on the system and finance in collaboration with the service will be finalised by the end of June 2024 with actual transfer of budgets information planned to be undertaken in July 2024 allowing sufficient time for service in collaboration with finance to embed these changes.

New Cost Centres for Premises licences is being created in June with a view to having the model in place during August 2024.

6.9 The eight outstanding remediations are being monitored as part of the FIP programme to ensure they are implemented as soon as possible. Further update will be presented to this committee in the future.

6.10 Further details on the Financial Controls Remediation Project are available in the summary project report produced by EY which is appended to this report as Appendix 3.

3 Background papers other than published works or those disclosing exempt or confidential information

None

4 Published documents referred to in compiling this report

- Audit Committee 29 September 2023 - Finance Improvement Plan Update
- Audit Committee 24 November 2023 - Finance Improvement Plan Update
- Audit Committee 28 June 2024 - Statement of Accounts Progress Update

Appendix 1 – Key Deliverables Completed since the last Update in March 2024

FIP Theme	Action - UID	Action	Characteristics & Measures of Success
1) Strengthening Financial Leadership	A1.3	Implemented Financial Accountability Agreements for Corporate Directors and Budget Holders to ensure delivery of service plans within approved budget and establishment.	Accountability Agreement is in place clearly articulating management expectations of good financial management
1) Strengthening Financial Leadership	A1.14	Established clear guidance on the financial roles and responsibilities of Corporate Directors, Budget Managers and Finance.	Guidance is followed leading to improvement financial management
1) Strengthening Financial Leadership	A1.16	Rolled out Accountability Agreement to all budget managers	Effective financial management in accordance with the Accountability Agreement
1) Strengthening Financial Leadership	E1.6	Established a comprehensive suite of financial information reports that helps leaders/managers in Finance manage compliance, control and process bottlenecks. Dashboards created and rolled out.	The authority's medium term financial planning process underpins fiscal discipline, is focused upon the achievement of strategic priorities and delivers a dynamic and effective business plan
4) A well designed and robust system of internal financial control	A2.11	Conduct monthly reviews to ensure continuous improvement / Value for Money, taking corrective action as necessary to drive improvement. Introduced appropriate and proportionate contract management arrangements for overseeing the EMSS Partnership including a review of the SLAs and performance metrics across all functions and services.	The authority has in place effective contract management arrangements in place that are proportional to the value and significance of the contract
4) A well designed and robust system of internal financial control	E4.1a	Created a comprehensive training programme to improve financial management understanding including the internal control framework across the authority	Managers across the authority possess sound financial literacy to competently perform their role and are able to be held to account
4) A well designed and robust system of internal financial control	E4.1b	Rolled out a comprehensive training programme to improve financial management understanding including the internal control framework across the authority	Managers across the authority possess sound financial literacy to competently perform their role and are able to be held to account
5) Embedding Professional Accounting Practice	E2.4	Carried out significant accounts receivable review and ensured the transactions for all outstanding accounts are correct.	Ensuring the transactions for each of the accounts outstanding are correct
8) Adult Social Care Managing Finances	E2.26	Reviewed all existing dashboards and reports to ensure that they add value and are being utilised as envisaged	Oversight Board will drive the production of an appropriately resourced and jointly managed action plan to deliver data and system improvements and clarify future roles and responsibilities regarding systems ownership and controls.

