



Audit Committee

16:30 to 19:15

21 November 2023

Present: Councillors Price (chair), Kidman, Osborn, Packer, Prinsley (substitute for Councillor Fulton-McAlister), Sands (M) and Wright and David Harwood (Independent Person)

Also present: Councillor Kendrick, cabinet member for resources

Apologies: Councillors Driver (vice chair) and Fulton-McAlister (other council business)

1. Public questions and petitions

There were no public questions or petitions.

2. Declarations of interest

None.

3. Minutes

RESOLVED to approve the accuracy of the minutes of the meeting held on 11 July 2023.

(The chair agreed to move the following item forward to facilitate officer resource.)

4. Learning Lessons from Failings in Other Authorities

The chair introduced the report, which had been requested by the committee, and said that he considered it prudent that the committee was aware of the reasons that had led other councils into financial predicaments.

The Interim Head of Finance presented the report on behalf of the Head of Legal and Procurement (Monitoring Officer) and confirmed that both he and the Interim Chief Finance Officer had contributed to the report, particularly around financial governance. The report provided an overview of what was happening to local government around the country, but it was not always possible to anticipate every circumstance or effect. For instance, the cyber-attack at Redcar and Cleveland was debilitating for the authority, whereas, at Hackney, it was better managed due to having more resources available. Several councils had issued S114 notices or warnings that they may be required to do so, with an estimated 10 per cent of councils being considered at risk of doing so this year.¹ He explained that S114 notices were issued by S151 officers and empowered them to take emergency

¹ Further details are available on the Room 151 website (<https://www.room.151.co.uk>)

measures and restrict expenditure to the provision of statutory services. This council was not in the position of the failing councils. It was in a good financial position, with reserves and a five-year financial strategy, and heeded warning signs. He also referred to the governance arrangements, set out in the report, that provided assurance to the council and included the role of the three statutory officers (Chief Executive, Chief Finance Officer (S151) and Monitoring Officer) and internal audit. Members were advised of the financial governance arrangements of the council in response to challenges, as set out in paragraph 27 of the report.

The Interim Chief Finance Officer (S151 officer) commented on the governance arrangements of the council, including Future Shape Norwich (FSN), which provided the right level of challenge and scrutiny and was credible. There were some areas of concern and more that could be undertaken. However, the council's financial position, and projections going forward were robust. It was unlikely that the council would be in the situation of its S151 officer issuing a S114 notice. All councils were facing challenges financially. Councils also needed to ensure that there were good governance arrangements in place. The issue of a Best Value notice to South Cambridgeshire demonstrated the importance of governance arrangements as set out in the Annual Governance Statement (AGS) and it was important that there was focus on these areas as well. The financial decisions made by the other councils were unique and not difficult to avoid but there was no room for complacency. The key governance controls and the role of members were also important.

At the invitation of the chair, Councillor Kendrick, cabinet member for resources, said that the city council was well regarded for its financial management by other local authorities. He had been invited to train so that he could advise other council's facing financial difficulties and stressed the importance of officer/member relations, noting that where these had broken down were a factor of failing councils, for instance at Birmingham, the S151 officer issued a S114 notice without informing the leader of the council. It had not always been the case that this council's finances were in a good place. In 2005 the council had a £3m black hole in its finances. Financial reporting had improved immensely thanks to the Interim Chief Finance Officer (S151) and his predecessors, and financial information was shared. He pointed out that in Thurrock with its high levels of deprivation, 35 per cent of all council tax raised went to the government to repay the council's loan.

The chair said it was important that financial information was shared with members across the council and that he considered that the council's finances had improved in the last 2 to 4 years but it was an ongoing journey.

During discussion, a member said that he was intrigued with the government's power to issue a Best Value Notice as it had in South Cambridgeshire because it did not agree to a policy that had been implemented. The Interim Chief Finance Officer said that councils had a duty to provide best value, in accordance with the "3 e's": economy, efficiency, and effectiveness. In this case if officers were working for 4 days a week at full salary, reducing output to 80 per cent, it could be considered not best value, and the council was therefore not complying with its best value duties. Other authorities had also received Best Value Notices. Commissioners were put in place to oversee these authorities.

A member asked whether the delays in external audit were contributing to the financial failure of councils. The Interim Chief Finance Officer acknowledged the delays in external audit and said that the government was establishing the Office for

Local Government (Oflog), which would be a bastion of good practice for local government and considered that it would be a similar body to the former Audit Commission. As S151 officer he had a statutory duty to check the controls and balances in the accounts before he signed them off. In his experience the external auditors did not find any fundamental weaknesses in the accounts but did provide an independent validation which was important to the public.

In reply to a member's question, the Interim Chief Finance Officer said that the council only paid the external auditors for the service that they provided in accordance with the scale of fees for services agreed with the PSAA (Public Sector Audit Appointments). Therefore, if the External Auditor only provided a best value opinion on the 2021/2022 and 2022/23 accounts, the council would only be expected to pay for that. The chair suggested that the committee could receive additional assurance by inviting the officers with ownership of key risks to provide further information on risk mitigation. The Interim Head of Finance said that officers sought external advice on treasury management matters with the council's consultants rather than external audit as previously. He confirmed that there had been additional checks made on the accounts as part of the audit process, and all amounts of £60k and above, from June to October. It was important that there were no issues to provide certainty of the opening balance for the next year's accounts.

The Interim Head of Finance and the Interim Chief Finance Officer explained the reasons for there being a high level of interim officers at the council. This was attributed to the difficulty of the market, not just in finance but across local government generally, with salaries being lower than London weighting or the private sector, and the geographical location of the council. The council had been successful in recruiting a new S151 officer and would be recruiting a deputy S151 officer and other finance team members in due course. The council had been successful in appointing capable interim staff where other authorities had failed.

A member referred to paragraph 22 of the report and asked if the committee could consider the Local Partnerships review of the governance of the council's wholly owned companies, noting that the outcome of the report on Norwich City Services Ltd (NCSL) had been shared with the shareholder panel. The Interim Chief Finance Officer said that the report could be shared with the committee at the appropriate time following initial consideration at the shareholder panels and boards, and then the committee could review it in the round.

The chair then picked up on the member's second question and asked about the risk of "institutional blindness" to provide members with assurance that they were not "putting good money after bad". In response, the Interim Chief Finance Officer explained the role shareholder panel, which was unique and not found in the private sector, and comprised a group of people who reflected the interests of the sole shareholder, the council. In addition, as S151 officer he had statutory duties to act within the best interests of the council and had oversight of the council's accounts, including the aggregation of the companies' accounts into the council's financial accounts; and in accordance with professional accounting rules and regulations and market forces could set conditions for loans from the council to the companies. Councils that have demonstrated institutional blindness have tried to keep a company going and not looked at other alternatives. There was a point with both wholly owned companies where the option to continue had been considered. When this applied to NCSL, a whole range of options had been considered as would be expected.

The chair said that whilst he did not consider that the failure of the wholly owned companies, which was a small arm of the council, would cause the council to have a S114 notice, there was a risk and asked members to contact him with any concerns. The Head of Internal Audit suggested that it would be useful to undertake an assurance mapping exercise so that members could see the different levels of assurance received at cabinet, shareholder panel and board meetings on this issue, and she would work with the other officers to provide this to a future meeting.

A member asked that the options appraisal for NCSL should be considered alongside the governance review report. Members needed to understand the role of the shareholder panel and the relationship between the council as client and the contract with the company, and whether there was any conflict of interest. The Interim Chief Finance Officer explained the procedures to ensure that the Interim Executive Director of Housing and Community Safety, who was also the Interim Managing Director of NCSL, handled, any conflict of interest that could arise and kept the interests of housing services and the company's separate according to each of these roles. The Head of Environment Services and Interim Head of Asset Management handled contracts on the client side for the council.

A member praised the council for its good financial management and said that this should be communicated to members of the public.

RESOLVED, having reviewed the report, to:

- (1) ask the Head of Legal and Procurement to report on the Local Partnership's governance review of the arrangements for the council's wholly owned companies to a future meeting of the committee:
- (2) note that the Head of Internal Audit will report back to the committee following an assurance mapping exercise on where assurance is received, and decisions made, in relation to the wholly owned companies.
- (3) note the following actions:
 - (a) ask the Head of Legal and Procurement to consider whether the financial options appraisal of Norwich City Services Limited (NCSL) can be shared with members of the committee.

5. Draft Annual Governance Statement 2022/23

The chair introduced the report and said that since the last meeting members had submitted comments to the Head of Legal and Procurement on the draft Annual Governance Statement (AGS) and these were incorporated into the report as tracked changes.

During discussion, a member said that the discussion on NCSL under the previous item and said that it should be updated to reflect the feedback on the contract performance and the increase in reports on mould and damp, and complaints in the [Ombudsman's report](#). The Interim Head of Finance said that this should be caveated that the period covered by this statement was the financial year 2022/23. He would need to investigate which year the Ombudsman's report referred to. He

said that if any members had any questions, he would be happy to liaise with the Head of Legal and Procurement and get back to members outside the meeting.

The Independent Person said that he would have expected the covering page of the AGS to state the date (2022/23) and that Appendix A should be updated to reflect the progress made on actions in the 6 months since it was originally published. There should be dates given when actions were completed. He also asked for an explanation of why the key performance measures for the Corporate Plan had not progressed (Appendix A, page 37 of the report). Some appeared not to have been completed despite the target date of implementation having been passed. A member also pointed out that actions relating to housing compliance.

The Interim Head of Finance said that he understood that these actions were in progress and that some would be closed off by the time that the AGS would be signed off. He would liaise with the Head of Legal and Procurement to update this. The refresh of the Corporate Plan was being refreshed during the current cycle and it was considered useful to comment in the text of this report.

The chair said that in previous statements there was a section that identified risks in the next cycle and this section was missing in this AGS. The Interim Head of Finance said that he would discuss this with Procurement. The chair said it was important that the public were aware that the council was forward facing and gave assurance to the council. During discussion the Independent Person picked up on comments under the previous item where a member commented that the council needed to publicise its good financial management and show its actions going forward, and suggested that cabinet published an Annual Report. A member suggested that this could be included in part of the council's communications and engagement strategy.

Councillor Osborn moved and Councillor Prinsley seconded a proposal to cabinet that it considers the publication of an Annual Report of what it has achieved and what it hopes to do as part of its wider communications strategy. The Interim Head of Finance said that the Corporate Plan provided a plan for 5 years ahead and that an Annual Report could be part of that. However, members considered that it should be a separate, non-political document and on being put to the vote it was resolved unanimously.

- (1) endorse the draft Annual Governance Statement 2022/23, subject to consideration of the comments of the Independent Person and members as minute above, and will be shared with members outside the meeting;
- (2) recommend to cabinet that an Annual Report is published as part of the council's communications and engagement strategy.

6. Draft Statement of Accounts 2022/23

The chair introduced the report and thanked officers for their support in providing the informal briefing session to members in September. (Members' questions and responses were appended to the report at Appendix 1.)

The Interim Head of Finance introduced the report. The council's net equity had increased by £2m over the last two years due to increased value of the council's assets and long-term investments. The council had benefited from higher interest rates on its investments and had significantly reduced its borrowing. The accounts had been submitted on 31 May 2023. Further clarity was expected from central government about local government external audit delays and outstanding audits for 2021/22 and 2022/23, so that progress could be made on the accounts for 2023/2024. External validation was important to the taxpayer. He considered that these accounts demonstrated prudent financial management and accountancy and had a good level of reserves.

During discussion, the Interim Head of Finance answered member's questions, including a question to explain the pooling of business rates in the county (the response is set out to question 20 in Appendix 1 of the report) and that although the council benefits from this it received less than it would under a fairer system.

Members were also advised that with reference to Section 4 of the Statement of Accounts (SoA) (page 63 of the agenda papers) there had been a cross-cutting review of contract management and that a report had been received by the committee (Audit Committee, 7 December 2022).

Discussion ensued on the contract with NCSL and that the accounts were part of the council's overarching group accounts. It was noted that these included details of the wholly owned companies' profits and losses. The shareholder panel and company board would sign off the company's accounts. The Independent Person expressed concern that there had been several requests at this meeting for assurance on the wholly owned companies and that the committee should have a discussion outside the meeting about what information it needed to provide assurance. The Head of Internal Audit said that the assurance mapping exercise previously agreed would provide the committee with details of sources of assurances and identify any gaps. The committee concurred that a report on this should be considered ahead of drafting the AGS 2023/24.

In reply to a member's question, the Interim Head of Finance referred to his response on the maximisation of income from its heritage assets (Appendix 1, question 14) and agreed there was an opportunity to generate income from the Halls. The council was using reserves to fund the capital programme and reduce the need to borrow. The council did not need a large cashflow. The council might consider cheap loans in the future if it was the best value. The chair referred to discussions at the Treasury Management Committee (20 November 2023) and said that the Corporate Finance Business Partner was bringing forward the Treasury Management Strategy for the next cycle which would include options for repayment or refinancing of the two £50m loans due to mature in 2026 and 2028. The Interim Head of Finance explained the rules that meant that capital receipts from monetising heritage assets could only be used to finance capital and not be used for revenue expenditure. He also explained that councils needed to act prudently and that loans must be affordable and sustainable.

RESOLVED, having reviewed the Draft Statement of Accounts, to note that the audited Statement of Accounts 2022/2023 will come back to a future committee meeting to be signed off.

7. Internal Audit Progress November 2023

The Head of Internal Audit presented the report.

The Independent Person referred to the key strategic findings in relation to the internal audit review of NC2310 Housing Benefits and asked what was being done to address the issue of no reconciliations being completed between the housing benefits system and the general ledger since the adoption of the new system in April 2022. The Interim Head of Finance said that the Revenues and Benefits service had shared information that this had been resolved and were awaiting validation from Internal Audit. The difference had been a correction of a few thousand pounds. It was important to ensure that reconciliations were of sufficient quality and signed off appropriately. A process was in place to manage reconciliations on a monthly and quarterly basis as part of the improvements to the financial controls of the council. He confirmed that the key controls assurance follow-up audit when undertaken would confirm this and there had been no risk to the council.

In reply to a question from the Independent Person, relating to the Internal Audit Progress report considered at the July meeting, the Interim Head of Finance confirmed that the committee would receive details of the recommendations arising from the formal investigation into the Social Housing Decarbonisation, Sustainable Warmth Competition and LAD1b grants received by the council at the next progress report.

The chair commented on the 49 outstanding actions despite the focus of this committee to ensure that recommendations from internal audit reviews were carried out by agreed target dates, and making it clear that heads of service or responsible officers should attend committee and explain reasons for not implementing actions. Discussion ensued in which the Interim Head of Finance explained that Internal Audit were not at fault and there was an issue of communication. The Head of Internal Audit said that she was liaising with the Interim Head of Finance to improve the process for updating receiving and updating information by giving them access to the system. The process needed to be tightened up as it was important to close-down items. Members considered that to be aware of the whole picture, the information provided to the committee should include the date that the request was made to the named officer and record if a response was not received.

Discussion ensued on the progress against the internal audit plan. The chair expressed concern that internal audit reviews of the Waste Management – Biffa Contract, Non-Housing Capital Programme Management and Corporate Governance were in quarter 4 and could slip. The committee should receive the outcomes of the quarter 2 internal audit reviews on Environmental Sustainability, Housing Repairs and Void Management (NCSL) and Contract Management at the next meeting. The Head of Internal Audit said that she expected that by the end of December the team would have completed 50 per cent of the plan. Some items in quarter 4 might slip. A new protocol and ways of working was being introduced and as a contingency it might be possible for the contractor to pull in more resource, or we may have to risk

assess and prioritise audits. The chair said that he was concerned that this was the second year that the audit plan had slipped.

The Head of Internal Audit said that there were three bodies in the protocol, who have responsibilities, officers and senior managers, the contractor (Eastern Internal Audit Services) and the Head of Internal Audit. It was important that everyone did their part when it was due and that officers responded to requests for information from the contractor promptly. Following discussion, it was agreed that the chair, supported by the cabinet member for resources, could help escalate the need for officers to respond so as not to delay the audit process. A member suggested that the Chief Executive Officer and senior managers should also be informed.

RESOLVED, having reviewed the progress of the delivery of the 2023/24 Internal Audit Plan to note that:

- (1) the Interim Head of Finance will provide an update on the Outstanding Internal Audit Recommendations as set out in Appendix 4, and that the responsible officers will be required to attend the next committee if they have not implemented recommendations by the revised due date.
- (2) the chair will email responsible officers who fail to respond to requests from Internal Audit, supported by the cabinet member for resources.

(Councillor Packer had left this meeting at this point.)

8. Risk Register

The Interim Head of Finance presented the report.

During discussion, the chair noted that the risks were static. Members commented that details of mitigation were missing in this report and that the committee required a breakdown of each of the high-level risks and the proposed actions in mitigation to manage the risk. The Interim Head of Finance said that the report had been considered at cabinet (15 November 2023). The chair suggested that the committee required information on the actions in full and that if there was commercial or other sensitivity, then that item would be considered in private session.

During discussion members noted that in relation to CORP15 Failure to draw down £15m of Housing Infrastructure Funding there was some progress on Anglia Square as an extraordinary cabinet would be considering an application from Community Infrastructure Levy exemption (cabinet, 22 November 2023). Members noted that CORP 20 Cost of Living remained high. Members also noted that CORP 21 Risk to Council and its Residents was included, and the chair expressed an interest in seeing the metrics around that.

RESOLVED to note the report and ask the Interim Head of Finance to provide members with details of mitigation and actions to reduce residual risks.

9. Exclusion of the Public

RESOLVED to exclude the public from the meeting during consideration of 10* (below) on the grounds contained in the relevant paragraphs of Schedule 12A of the Local Government Act 1972 (as amended).

10*. Risk Register (Exempt Appendix) (Paragraph 3)

(There is an exempt minute on this item.)

RESOLVED, having considered the report, to ask for a full break down of the KPIs and mitigation in relation to the risks contained in the exempt appendix.

(The committee then returned to public session).

(Councillors Wright and Kendrick left the meeting at this point.)

11. Work Programme

The committee discussed the work programme report and the progress against the self-assessment recommendations.

The chair said that the committee should review the council's "Whistleblowing Policy".

Members noted the terms of reference of the other authorities and agreed to consider these as part of the self-assessment exercise.

RESOLVED to:

- (1) note the report.
- (2) hold an informal session as part of the committee's self-assessment process, .
- (3) amend the work plan to include:
 - (a) the report on the outcome of the assurance mapping exercise of levels of assurance on the council's wholly owned companies at the March meeting.
 - (b) consideration of the Local Partnership's report on the governance arrangements for the council and NCSL when appropriate.
 - (c) note that members have requested that the committee reviews the council's "Whistleblowing Policy".

CHAIR