

Item No. 9.	Classification: Open	Date: 22 November 2022	Meeting Name: Audit, Governance and Standards Committee
Report title:		Public Interest Reports Update	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee note Grant Thornton's report 'Lessons from recent Public Interest Reports and other interventions' 2022 (Appendix 1)
2. That the audit, governance and standards committee agree to circulate the report to all councillors.

BACKGROUND INFORMATION

3. Grant Thornton (GT) published a report 'Lessons from recent Public Interest Reports' in March 2021 summarising the findings from the Public Interest Reports (PIRs) at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020) and Northampton Borough Council (January 2021), to illustrate the importance of the way governance operates in local authorities and of the critical importance of scrutiny and challenge.
4. GT have published a follow on report (2022 GT), 'Lessons from Public Interest Reports and other interventions' based on a further 10 councils who have had public interest reports and statutory recommendations and other interventions such as Section 114 notices¹. This report draws together the main points of interest from this further report, in order to update the audit, standards and governance committee. The report considers the key themes from the latest set of interventions as:
 - Cultural and governance issues
 - Failure to understand and manage the risks associated with external companies
 - Failure to address and resolve relationship difficulties with senior officers and members
 - Financial capability and capacity
 - Audit committee effectiveness

¹ Section 114 of the Local Government Finance Act 1988 requires the Section 151 Officer, in consultation with the council's Monitoring Officer, to report to all other authority members if they believe the council is unable to set or maintain a balanced budget.

CULTURAL AND GOVERNANCE ISSUES

5. The 2021 GT report concluded that the quality of scrutiny varied between councils. In cases where PIRs were issued, the level and depth of challenges were not sufficient. The London Borough of Croydon was used to illustrate the failure of members to challenge the financial risks of their budget, and the deliverability of their savings plan; the council's governance over budget setting and monitoring had not been strong enough.
6. To improve, the report recommended a strengthening in governance and a commitment by council members to work collegiately when making strategic decisions which in turn, will increase transparency. It was critical to establish a healthy management culture in cases where challenge and scrutiny were lacking.
7. Culture was defined as following the Nolan principles in political and officer life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. The GT 2022 report stated that this weakness in council culture and governance in some authorities had continued. Observations of poor governance and culture included: excluding officers from decisions, preventing officers from raising concerns, discouraging public discussion, and opting for cover-ups rather than accepting challenges and addressing problems.
8. The report suggests that there should be an emphasis placed on the importance of officers' and members' responsibilities for the stewardship of public monies and the need to respect the advice of statutory officers and the findings of internal and external audits. Transparency should be prioritised, even if councils are not facing current financial risks they should consider if their existing culture can withstand risks if they appear.

FAILURE TO MANAGE RISKS ASSOCIATED WITH EXTERNAL COMPANIES

9. Councils responsible for council-owned companies must account for their financial risks and benefits. Councils require appropriate financial and legal advice from an unaffiliated party, alongside training for those involved so that the skills are in place to run the operation with full risk assessments observed. Member challenge and scrutiny can be weak when they fail to understand the area they are looking to invest in. Oversight must be kept separate from operational delivery to ensure the correct investment of council funds, and opportunities to challenge decisions.

FAILURE TO MANAGE RELATIONSHIP DIFFICULTIES

10. The 2022 GT report stated that a theme of the latest tranche of auditor interventions was that poor and deteriorating senior officer and member relationships have persisted in some councils, linking with the previous themes of the importance of organisational culture, values, codes, policies and procedures. In some cases relationships have broken down where statutory officers have tried to stand up for what is right and been challenged.

FINANCIAL CAPABILITY AND CAPACITY

11. In the original report, the emphasis was on the impact of the Covid-19 pandemic and reduced central government funds on financial governance arrangements and risk mitigation strategies. This tumultuous period highlighted some weaknesses in financial decisions that may have otherwise remained undetected. GT identified several areas of weakness including lack of transparency in financial decisions, lack of understanding of how to manage financial uncertainty, and undue pressure on senior managers to set budgets based on over-optimistic assumptions.
12. The 2022 GT report states that underinvestment in some councils has remained an issue. Consequently, councils have experienced reduced capacity and skills. Many council finance departments have suffered from underinvestment, as back office services were impacted during austerity, with councils attempting to protect front line services. This has impacted on skills and capacity in many cases. There are now significant weaknesses in some councils' succession planning, in understanding the financial accounting implications of new and innovative schemes, and in the production of financial statements, the requirements for which have grown significantly more complex in recent years. The report suggests that there may be similar challenges for the Monitoring Officer with underinvestment in skills and capacity.
13. The report recommends that members and corporate management teams should adhere to the CIPFA Financial Management Code and ensure that requirements are met and to deploy extra resources where necessary.

AUDIT COMMITTEE EFFECTIVENESS

14. The 2022 GT report increasingly sees audit committee effectiveness as an issue. A strong internal audit service and audit committee are important lines of defence within a council's control environment. Audit Committees should, as defined by CIPFA, have a membership that is "balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role" with a "strong, independently-minded chair [...] who promotes apolitical open discussion". The report states that there are examples of committees voting on party lines, failing to accept the merits of challenge from opposition party members and failing to demonstrate these other characteristics as described by CIPFA.

GRANT THORNTON'S RECOMMENDATIONS FOR COUNCILS

15. The GT 2022 report concludes that some of the messages are the same as those set out previously, i.e. poor culture and governance, lack of oversight. Council audit committees should strive for continual improvement and regular review the potential risks. They should ensure that training and resources are available for audit committee members to develop their skills and appropriate behaviour is known, and consider self-assessment or peer review.
16. Again, the report highlighted the importance of investment in training and recruitment to combat capacity constraints and maintain the appropriate skill

levels to deal with budget overspends and issues that arise.

Policy implications

17. This report is not considered to have direct policy implications.

Community, equalities (including socio-economic) and health impacts

Community impact statement

18. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Equalities (including socio-economic) impact statement

19. This report is not considered to contain any proposals that would have a significant equalities impact.

Health impact statement

20. This report is not considered to contain any proposals that would have a significant health impact.

Climate change implications

21. This report is not considered to contain any proposals that would have a significant impact on climate change.

Resource implications

22. If there are direct resource implications in this report, such as the payment of fees, these will be met from existing budget provision.

Consultation

23. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

24. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Public interest reports and Grant Thornton report	Finance and Governance, Second Floor, Tooley Street	Geraldine Chadwick

APPENDICES

No.	Title
1	Grant Thornton: Lessons from Public Interest Reports and other interventions Part 2, September 2022

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Geraldine Chadwick, Interim Technical Accountant.	
Version	Final	
Dated	10 October 2022	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		10 October 2022