

21 November

Report of Grant Thornton: Lessons from Public Interest Reports and other Interventions: Part 2

Ward(s): All

Portfolios: All

Purpose: For Information

1. Aim

- 1.1 To receive and consider the report of Grant Thornton in relation to lessons that can be learnt from public interest reports and statutory recommendations, along with other interventions such as section 114 notices which impact upon the financial management and governance arrangements of local authorities.

2. Summary

- 2.1 Grant Thornton produced a report in March 2021 regarding lessons learned from a number of cases where there had been intervention in local authorities resulting in the publication of public interest reports and statutory recommendations. Since then there have been a number of further interventions such as s114 notices. These have brought into sharp focus the financial management and governance arrangements of local councils. Grant Thornton published Lessons from Public Interest Reports and other Interventions Part 2 in September 2022.
- 2.2 The report summarises the key issues into five main areas: Cultural and governance issues; Failure to manage the risks associated with external companies; Failure to manage relationship difficulties between senior officers and members; Financial capability and capacity; and Audit Committee effectiveness. Many of these areas remain a focus of the latest auditor and government interventions.

3. Recommendations

- 3.1 That the Committee note the report.

4. Report detail – know

- 4.1 The report made recommendations in relation to each theme. A summary of the themes and recommendations made in relation to matters likely to be of most interest to or within the remit of the Audit Committee are as follows:

4.2 Cultural and Governance Issues

General Extracts and Comments from the Report

A common factor in these recent interventions has been weaknesses in council cultures (e.g. poor behaviours, a lack of transparency) and weaknesses in

governance (e.g. a circumvention of governance procedures, poor quality review and decision-making). This has been in relation to both members, and senior and statutory officers. A failure to adequately support whistle-blowers was also identified, suggesting a council that is not open to challenge. The governance around significant decisions is not always adhering to the Nolan Principles – the importance of “selflessness in public office”. Cultural change is identified as key to changing these behaviours, with training suggested, including an emphasis on the importance of officers and members responsibilities for the stewardship of public monies. There have been examples where there has been a poor recognition of the fact councils are using, and are responsible for, public money. Linked to this, there needs to be a recognition of the need to respect the advice of statutory officers and the findings of Internal and External Audit.

Recommendations

- Cultivate an open and transparent culture;
- Embed an active review of all complaints and a zero tolerance approach to inappropriate behaviours;
- Undertake regular training to ensure members and officers are aware of the Code of Conduct and ensure that members understand their roles;
- Ensure members listen to challenge and take action to tackle long standing issues.

4.3 Failure to manage relationship difficulties

General Extracts and Comments from the Report

This is linked to the theme of culture and governance above, with inadequate arrangements in place to oversee responses to whistleblowing, grievance and disciplinary procedures. A failure to involve elected members in good time was also highlighted.

Recommendations

- Senior leadership, both officers and members, must demonstrate that they can continue to work together effectively, that they operate in line with their council’s values, codes, policies and procedures, and that there is a zero tolerance approach to inappropriate behaviours;
- This might include a review of the organisational culture in relation to complaints, and training for officers and members on their roles and responsibilities in relation to these parts of their council’s constitution;
- Where there have been complaints, grievances or disciplinary proceedings, review the management and oversight of these in the light of this report.

4.4 Financial capability and capacity

General Extracts and Comments from the Report

Underinvestment in finance departments - in the developing of new S151 officers, the use of interim and acting up arrangements in senior roles, and a lack of back fill has impacted capacity in many finance teams. This has resulted in late or poor quality financial statements, In some councils, there is a lack of a robust financial plan and reserves have significantly reduced, with a consequential lack of understanding of the potential impact.

Recommendations

- Capacity constraints within teams should be identified and recruitment to fill key posts prioritised;
- Finance teams must have the skills to take appropriate and timely action when budget overspends are identified, or when its clear savings cannot be delivered;
- Training needs within finance teams should be assessed and addressed. This should include a focus on the arrangements to produce high quality draft financial statements;
- Succession planning needs should be considered, with a longer-term view as to when there might be a gap in senior, experienced officers. Consideration should be given to investing in training the next generation of finance specialists;
- Consider the CIPFA Financial Management Code and what actions are required to ensure full compliance with these requirements.

4.5 Audit Committee effectiveness

General Extracts and Comments from the Report

The report highlights that although this matter has not yet been significant enough to warrant a public interest report, it is being seen as an increasing issue, with examples of Committees voting along political lines, Committees without the right balance of skills and knowledge, some members providing little challenge to matters being considered on the agenda, and in some, not accepting appropriate challenge, from external auditors for example.

Recommendations

- Councils should consider commissioning independent reviews on their Audit Committee effectiveness and whether they meet the CIPFA position statement on Audit Committees and the recommendations in the Grant Thornton Audit Committee Effectiveness Review 2015;
- For members, especially Audit Committee chairs, consider handover arrangements and ensure all issues of which you are aware are subject to a formal hand over;
- Councils must consider and implement an action plan for all outstanding audit recommendations;
- Consider what training and resources are required by Audit Committee members to develop their skills and knowledge;
- Ensure the Committee produces an Annual Report on its activities and presents this to Full Council;
- Consider implementing an annual self-assessment of Audit Committee effectiveness;
- Treat Internal Audit and External Audit as critical friends – not as suppliers whose fees you need to beat down;
- Consider the merits of appointing appropriately qualified independent members to an Audit Committee;
- Consider whether an Audit Committee is politically balanced and whether a committee would benefit from a membership better balanced between the main parties.

4.6 The council has carried out a number of self-assessments against findings of significant public interest reports to benchmark the efficacy of our own governance. Information on these were included in the review of effectiveness of the internal

control environment report presented to Audit Committee in June 2022 to support production of the Annual Governance Statement.

5. Financial information

5.1 There are no direct financial implications arising from this report.

6. Reducing Inequalities

6.1 Effective governance arrangements ensure a focus on delivering of Council Plan objectives, a key driver of which is reducing inequalities.

7. Decide

7.1 Committee is asked to note and comment on the report.

8. Respond

8.1 The Grant Thornton report will be disseminated to all Elected Members.

9. Review

9.1 The council reviews it's systems of governance on a regular basis. The council also completes an Annual Governance Statement on an annual basis which is externally audited.

10. Background papers

Appendix 1 – [Lessons from recent Public Interest Reports | Grant Thornton](#)

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