

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORWICH CITY COUNCIL

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2024 issued on 25 February 2025 we reported that we could not express an opinion on the financial statements.

Certificate

In our report dated 25 February 2025, we explained that we could not formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Norwich City Council. This confirmation has now been received.

We are required to consider whether any matters have come to our attention since the date of our audit report that would have resulted in additional exception reporting on significant weaknesses in the Council's value for money arrangements for the year ended 31 March 2024.

In our audit report on Norwich City Council for the year ended 31 March 2025, we reported the following significant weakness in the Group and Council's arrangements which are also relevant to the year ended 31 March 2024. We would, had we been made aware, have reported this by exception in our audit report for the year ended 31 March 2024.

In relation to governance – arrangements for oversight of subsidiaries:

Our judgement on the nature of the significant weakness identified:

Our review identified that the Council did not have effective policies, procedures, or governance arrangements for overseeing its part owned and wholly owned subsidiary companies. As a result, Council members and officers were unaware of inappropriate operating practices and emerging challenges within one subsidiary. The absence of oversight meant that the Council was unable to identify, assess, or respond to the associated risks as part of its decision-making processes. On incorporation, the subsidiary's Articles of Association did not establish adequate requirements for interaction with the Council. Although the subsidiary had a Board of Directors and the Council operated a Shareholder Panel Committee, their respective terms of reference provided for only minimal engagement.

No further Council guidance set out expectations regarding reporting, governance, escalation routes, or decision-making processes. Consequently, the subsidiary was able to operate independently, without any mandatory requirement to report to the Council, and financial issues were not identified on a timely basis. This prevented effective intervention and exposed the Council - and ultimately local taxpayers - to an increased risk of financial loss.

Based on the evidence available, there is no indication that adequate oversight arrangements for subsidiaries have ever existed, dating back to the subsidiary's incorporation in November 2015. Where issues arose, directors of the subsidiary retained full discretion over whether to bring matters to the Council's attention. In the

absence of any Council policies defining reporting duties or governance expectations, there was no breach of procedure if directors chose not to escalate concerns. The lack of structured oversight and clear governance requirements significantly contributed to the challenges experienced at the subsidiary, ultimately resulting in its liquidation and the reintegration of its services back into the Council.

A review of the Council's Constitution further identified that not all subsidiaries are included, with only one referenced. There is also no provision for future subsidiary arrangements, nor any requirements governing the reporting responsibilities of subsidiaries, how subsidiaries should report to the Council, or how the Council should communicate with its subsidiaries. As a result, subsidiaries have been left to govern themselves independently and report to the Council at their own discretion, creating material gaps in assurance and exposing the Council to unmanaged risks.

These weaknesses provide clear evidence of failings in the Council's arrangements, demonstrating that it does not have effective oversight of its subsidiaries, nor sufficient arrangements to:

- discharge its responsibilities in relation to significant partnerships;
- monitor performance against expectations; or
- ensure timely and effective intervention where improvement is required.

The evidence on which our view is based:

Through the review of the following:

- Council constitution
- Meeting minutes of Council committees including Audit and Cabinet
- Minutes of Lion Homes (Norwich) Ltd shareholder panels
- Reporting of Council appointed external consultants
- Articles of association of Council subsidiaries

We have also held meetings with management.

Impact on the Council:

The Council has been exposed to significant risks of poor decision making due to its inability to exercise effective governance, provide adequate support, or appropriately monitor the activities of its subsidiaries. Addressing these failures is essential to establishing and sustaining robust governance arrangements that safeguard both the Council's interests and taxpayer funds.

Action the Council should take to address the weakness:

To reduce future risk, the Council should update its Constitution to include explicit provisions for the effective management and oversight of all entities in which it holds an interest. This should encompass:

- clear governance and reporting requirements for subsidiaries;
- defined expectations for interaction between subsidiary boards and the Council; and
- signposting to the relevant governance policies and frameworks that apply.

This issue is evidence of weaknesses in proper arrangements for:


Governance, in particular:

- how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance;
- how the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls.

Improving economy, efficiency and effectiveness, in particular:

- how the Council ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives.

We certify that we have completed the audit of the accounts of Norwich City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



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