

# **Agenda**

## **Audit and Governance Committee**

**Friday, 3 December 2021, 10.00 am**  
**County Hall, Worcester**

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## DISCLOSING INTERESTS

There are now 2 types of interests:  
**'Disclosable pecuniary interests'** and **'other disclosable interests'**

### WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3<sup>rd</sup> party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

**NB Your DPIs include the interests of your spouse/partner as well as you**

### WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

**NB It is a criminal offence to participate in matters in which you have a DPI**

### WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:  
You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

### WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

### DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests** **OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

### DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

## **Audit and Governance Committee**

### **Friday, 3 December 2021, 10.00 am, County Hall, Worcester**

**Membership:** Cllr Nathan Desmond (Chairman), Cllr Salman Akbar, Cllr Aled Evans, Cllr Laura Gretton, Cllr Peter Griffiths, Cllr Luke Mallett, Cllr Dan Morehead and Cllr Emma Stokes

### **Agenda**

<b>Item No</b>	<b>Subject</b>	<b>Page No</b>
1	<b>Apologies and Named Substitutes</b>	
2	<b>Declarations of Interest</b>	
3	<b>Public Participation</b> <i>Members of the public wishing to take part should notify the Assistant Director for Legal and Governance in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 2 December 2021). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address listed in this agenda and on the website.</i>	
4	<b>Confirmation of Minutes</b> To confirm the Minutes of the meeting held on 24 September 2021. (previously circulated)	
5	<b>Statutory Accounts 2020/21 Progress update</b>	To follow
6	<b>Appointment of External Auditors</b>	1 - 6
7	<b>Internal Audit Progress Report</b>	7 - 16
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9	<b>Risk Management Report</b>	23 - 28
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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 24 November 2021

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **3 DECEMBER 2021**

## **APPOINTMENT OF EXTERNAL AUDITORS**

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### **Recommendation**

- 1. The Committee is asked to comment on the invitation from the Public Sector Audit Appointments for Worcestershire County Council to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.**

### **Introduction**

2. Under the Local Audit and Accountability Act 2014, the Council is required to appoint an auditor to audit its Statement of Accounts each financial year.
3. The external audit of local authorities was previously a responsibility of the Audit Commission, established in 1983 for this purpose. The Local Audit and Accountability Act 2014 abolished the Audit Commission as at 31 March 2015 and its functions have since been delivered via the Public Sector Audit Appointments (PSAA), National Audit Office (NAO), Financial Reporting Council (FRC) and the Cabinet Office.
4. The Council's current external auditor is Grant Thornton UK LLP and this appointment covers the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointments arrangements established by PSAA for the period covering the accounts for the five-year period from 2018/19 to 2022/23.
5. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.
6. This report sets out proposals for appointing the external auditor for the accounts for the five-year period from 2023/24 to 2027/28.
7. If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council must return completed opt-in documents to PSAA by 11 March 2022.

## **Procurement of External Audit for the period 2023/24 to 2027/28**

8. Under the Local Government Audit & Accountability Act 2014 (“the Act”), the council is required to appoint an auditor to audit its accounts for each financial year. The statutory requirement is to have an auditor appointment in place by 31 December of the year preceding the start of the contract i.e. by 31 December 2022. To allow sufficient time to run an effective procurement process, a decision must be made to determine how to undertake this process. The council has three options;

- To arrange our own procurement exercise and make the appointment ourselves;
- To arrange procurement in conjunction with other bodies’; or
- To opt in to the national auditor appointment scheme administered Public Sector Audit Appointments (PSAA).

### **The Appointed Auditor**

9. The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Value for Money (VFM) assessment of the Council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

10. The auditor must act independently of the Council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

11. The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms (only 9) and Key Audit Partners.

12. The scope of an audit is determined by the Code of Audit Practice (currently published by the NAO) and the format of the financial statements is specified by the Chartered Institute of Public Finance and Accountancy (CIPFA).

13. Auditors are currently regulated by the FRC, however they will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.

14. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

### **Appointment by the Council itself or jointly**

15. The Council may elect to appoint its own external auditor under the Act, which would require the Council to:

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
- Manage the contract for its duration, overseen by the Auditor Panel.

16. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

### **The national auditor appointment scheme**

17. PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

18. In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and

- ongoing contract and performance management of the contracts once these have been let.

## **Conclusion**

19. The national opt-in scheme will provide better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
- supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

20. The recommended approach is to opt in to the national auditor appointment scheme.

## **Proposed Next Steps**

21. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council. The Council/ then needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022). The decision to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies is a matter for full Council to determine and a final report will be brought to the 17 February Council meeting.

22. PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

## **Legal, Financial and HR Implications**

23. There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.



24. Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

25. If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

26. Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

27. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.

28. Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

29. Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

## **Contact Points**

### Specific Contact Points for this report

Michael Hudson, Chief Finance Officer, 01905 845560, [mhudson@worcestershire.gov.uk](mailto:mhudson@worcestershire.gov.uk)

Rachael Hart, Financial Reporting Manager, 01905 843165, [rhart@worcestershire.gov.uk](mailto:rhart@worcestershire.gov.uk)

## **Background Papers**

In the opinion of the proper officer (in this case the Chief Finance Officer) there are no background papers relating to the subject matter of this report.

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## AUDIT AND GOVERNANCE COMMITTEE 3 DECEMBER 2021

### INTERNAL AUDIT PROGRESS REPORT

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#### Recommendations

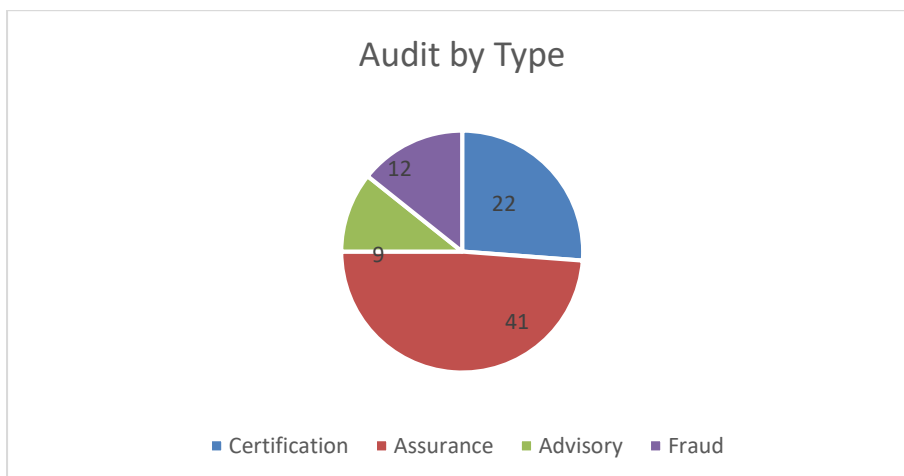
1. The Chief Internal Auditor recommends that the Internal Audit progress report be noted.

#### Background

2. The role of the Council's Internal Audit service is to enhance and protect organisational value by providing independent assurance, advice and insight into the Council's risk management, governance, and internal control processes.
3. This report is an update on the progress against the Audit Plan approved in March 2021 at Audit and Governance Committee, and this is the second year of a three-year programme.

#### Audit and compliance 2021/22 Q1/Q2/Q3 deliverables and Q4 plan

4. Progress as at the end of November 2021 is shown in Appendix 1, including planned audits for the remainder of the year.
5. In total the audit plan includes 84 work items. The pie chart below shows the split between audit, advisory, fraud and certification.



6. We have 14 assurance and advisory audits currently underway or completed with a further 36 planned for the remainder of the year.

<b>Audit State for assurance and advisory audits</b>	<b>Number</b>
Draft – engagement has not commenced	36
Open - ToR issues / engagement in progress)	9
Complete – fieldwork finished / report issued	5
<b>TOTAL</b>	<b>50</b>

### Grant certifications

7. Our grant certification work supports the Council in ensuring that money claimed from government agencies is correctly accounted for, and we work closely with operational teams to deliver this. 9 grants with a total value of £31.5m have been certified as accurate to date. We are currently auditing 6 grants with an income value to the Council of £43.8m. Details of certifications are given in Appendix 1. Due to the volume of grant certifications, and some delays to either notification that certification is required or the provision of evidence, we are working with the Council to identify a planned approach to their certification.

### Anti-Fraud and Corruption

8. We continue to receive fraud and irregularity reports via the hotline and internal staff reporting. The table below gives an overview of the cases so far this year, including the key theme areas. Of the 12 cases, 2 have resulted in fraud referrals to the police.

	<b>Details</b>	<b>Outcome</b>	<b>Theme</b>
1	Staff data access	Training need identified	Policy application
2	Procurement challenge	Investigation undertaken; no further action required	Procurement policies
3	Public complaint	Enquiry confirmed contact valid; no further action	Communications
4	Staff absence	Referred to payroll provider	Employment policies
5	Procurement card use	Investigation undertaken; action taken to clarify transactions and refund received	Procurement policies
6	Adult social care – client charging	Historical allegation; insufficient evidence for further action	Client charging
7	NFI match – employee with multiple jobs	HR investigation; employee resignation	Employment policies

8	Supplier details – change to bank details	Investigation undertaken; monies refunded; referred for police investigation	Fraud
9	Supplier concerns (other Local Authority)	Referral to contract manager	Contract management
10	Direct payment carer	Investigation undertaken; referral to Action Fraud and Police	Fraud
11	Employee with multiple employments	Ongoing	Declaration of interest
12	Supplier selection	Ongoing	Procurement / Declarations of interest

9. The Council continues to engage with the National Fraud Initiative programme, providing key data sets to the Cabinet Office to enable matches to be identified and investigated. The 2020/21 review is underway, with all Blue Badge data reviewed with no issue. Over 70% of Pensions queries have been completed resulting in £860 being recovered. Significant progress has been made in developing key standards to assist in future reviews.

10. A significant increase in engagement with staff on fraud awareness has been undertaken via the online platform Yammer. Alongside this an Anti-Fraud mandatory training module is included in the quarter 3 employee training programme.

11. The team is supporting the development of an online Midlands Fraud Group with a platform to share best practice, obtain advice and liaise on areas of regional concern.

### **Advisory services**

12. Advisory work includes developing revised Financial Regulations and supporting the Constitutional review currently being led by the Assistant Director for Legal and Democratic Services. The Chief Internal Auditor is a member of the Financial Improvement Programme Board, providing support and challenge to the procure to pay, income to debt, and financial systems upgrade.

### **Audit actions update**

13. Audit actions are tracked, and we make regular contact with operational managers to follow up progress. For actions relating to limited assurance audits where a follow up audit is planned, actions are transferred to the new audit. This applies to the following four audits which are listed in Appendix 2:

- Capital and Business Case Development
- Debt management
- Long term agency and consultancy placements
- HR Mileage and expenses

14. It is pleasing to note that actions in some areas have been closed before the audit is completed due to collaboration between the Internal Audit Team and colleagues being audited.

### **Key themes**

15. Across the range of work undertaken to date we have identified continuing issues with Council policy and procedures. Issues include policies which require updating and those which need to be more effectively embedded. As issues are identified in specific areas these are brought to the attention of the relevant operational managers through audit report or fraud investigation findings. We are also highlighting the issue with the Chief Officers' Group to encourage more proactive updates to be undertaken.

### **Staffing**

16. Following a structure review, we have recruited an Audit Assistant who had previously been in Internal Audit as part of the Financial Services apprentice programme. She will continue to undertake the Association of Accounting Technician qualification.

17. The team continues working with the HR Organisational Development team on the team development training programme. This programme supports individual and team development and will continue for the remainder of the year.

### **Contact Points**

#### Specific Contact Points for this report

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### **Supporting Information**

Appendix 1: Audit and grant certification report

Appendix 2: Audit actions

### **Background Papers**

In the opinion of the proper officer (in this case the Chief Internal Auditor) there are no background papers relating to the subject matter of this report.

**Assurance and advisory audits**

<b>Audit</b>	<b>Rating</b>	<b>Current Milestone</b>
2021/22-07 - HR mileage and expenses	Limited Assurance	End Audit
2021/22-20 - Chaddesley Corbett Endowed Primary School	Moderate Assurance	End Audit
2021/22-19 - Coate Water Care process review	Advisory	End Audit
2020/21-31 - Adult Social Care_ Working with People	Moderate Assurance	End Audit
2020/21-35 - Bewdley School & Sixth Form Centre	Moderate Assurance	Issue Draft Report
2021/22-09 - St Egwin's Middle School	Not assessed	End Field Work
2021/22-48 - Bayton Primary School	Not assessed	End Field Work
2020/21-50 - PY - Asset management - Property	Not assessed	Start Field Work
2020/21-77 - Rushwick CoE Primary	Not assessed	Start Field Work
2020/21-81 - Transport services, external and internal management and reporting	Not assessed	Start Field Work
2020/21-82 - Treasury management and the prudential code (revised)	Not assessed	Start Field Work
2021/22-02 - Democratic and Governance - Constitution review	Advisory	Start Field Work
2021/22-69 - Financial Regulations	Advisory	Start Field Work
2021/22-43 - Upton-upon-Severn CoE Primary School	Not assessed	Start Field Work
2021/22-55 - Capital and Business Case Development	Not assessed	
2020/21-47 - General Ledger Maintenance - CP / e5 upgrades	Not assessed	
2020/21-76 - Rigby Hall Day Special	Not assessed	
2021/22-01 - Covid related procurement arrangements	Not assessed	
2021/22-03 - Digital strategy implementation	Not assessed	
2021/22-04 - Risk management	Not assessed	
2021/22-05 - Insourced services – advisory and assurance support	Not assessed	
2021/22-06 - Employee starter process	Not assessed	
2021/22-08 - Financial resilience	Not assessed	
2021/22-10 - Pensions investment review - LGPS pooling	Not assessed	
2021/22-11 - Comberton Primary School	Not assessed	
2021/22-13 - HR Performance Cycle Review	Not assessed	
2021/22-14 - Direct payments	Not assessed	
2021/22-15 - Debt management	Not assessed	
2021/22-16 - Pensions administration reviews	Not assessed	
2021/22-21 - Public Health (tbc)	Not assessed	
2021/22-22 - Registration Service - Marriage Schedule Scheme	Not assessed	
2021/22-23 - Provider fee reviews	Not assessed	
2021/22-24 - Archaeology Service - Field Section	Not assessed	
2021/22-25 - IT data use security	Not assessed	

2021/22-49 - Franche Primary School	Not assessed
2021/22-50 - Grove Primary School	Not assessed
2021/22-52 - St Richard's CE First School	Not assessed
2021/22-54 - Long term agency and consultancy placements	Not assessed
2021/22-56 - Employee leaver process	Not assessed
2021/22-57 - Pension Fund investment arrangements	Not assessed
2021/22-63 - Procure to pay FIP	Advisory
2021/22-64 - Income to Debt FIP	Advisory
2021/22-65 - Penderels Direct Payments review	Not assessed
2021/22-66 - Medium Term Financial Plan	Not assessed
2021/22-67 - Scheme of delegation	Not assessed
2021/22-68 - Business Continuity Plan	Advisory
2021/22-70 - Procurement (process map)	Advisory
2021/22-71 - Contract review - Ringway	Not assessed
2021/22-72 - Contract register - supplier spend analysis	Advisory
2021/22-73 - Contract management process map	Advisory

#### Grant Certifications

Grant	Status	Current Milestone
<b>Grant</b>	<b>Rating</b>	<b>Current Milestone</b>
2020/21-24 - Track and Trace Funding Grant	Certified	End Audit
2021/22-17 - Pothole_Challenge Fund Grant	Certified	End Audit
2021/22-27 - Local Transport Block Funding - Integrated Transport	Certified	End Audit
2021/22-28 - Local Transport Block Funding - Pot Hole Action Fund	Certified	End Audit
2021/22-39 - Worcester Business Central Growth Hub	Certified	End Audit
2021/22-40 - Community Testing Fund	Certified	End Audit
2021/22-42 - Worcester Business Central Growth Hub Supplementary	Certified	End Audit
2021/22-45 - EU Transition Business Readiness Growth Hub Grant	Certified	End Audit
2021/22-53 - LA COVID19 Test & Trace Project Eagle Variant of Concern Surge Testing Grant 31/5513	Certified	End Audit
2021/22-26 - Bus Subsidy Ring Fenced Grant	Certified	End Audit
2021/22-61 - Broadband SEP	Not assessed	End Audit Work
2020/21-04 PY - COVID Bus Services Support Grant	Not assessed	Start Field Work
2021/22-31 - Disability Facilities Grant	Not assessed	Start Field Work
2021/22-37 - Covid19 Bus Services Support Grant	Not assessed	Start Field Work
2021/22-38 - Covid19 Tendered Bus Service Provision	Not assessed	Start Field Work



2021/22-59 - Major Project Grant: A4440 Worcester Southern Link Road Phase 4	Not assessed	Start Field Work
2020/21-26 PY - Transport to School (post COVID) Grant	Not assessed	Start Field Work
2021/22-60 - Home to School & College Transport	Not assessed	Start Field Work
2021/22-58 - BEIS Public Sector Decarbonisation Grant	Not assessed	Terms of Reference agreed
2021/22-29 - Local Transport Block Funding - National Productivity Investment Fund	Not assessed	
2021/22-30 - Local Transport Block Funding - Flood Resilience	Not assessed	
2021/22-36 - Blue Badges	Not assessed	

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Audit Actions

	Cleared	Not due	0-3 months late	3-6 months late	6-12 months late	>12 months late
<b>Substantial Assurance audits</b>						
St George's C of E Primary School	6		2			
<b>Moderate Assurance audits</b>						
Adult Social Care – Progress Review of the Three Conversations Model	3	3				
Chaddesley Corbett Endowed Primary School	2	13				
IT inventory	2				2	
IT legacy systems	2				1	
<b>Limited Assurance audits</b>						
HR mileage and expenses		4				
North Bromsgrove High School	7	1		1		
Capital and Business Case Development	1		5			
Debt management			3			
Long term agency and consultancy placements	5		2			
<b>Advisory audits</b>						
Financial management framework	14				1	
	39	18	12	1	4	0

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## AUDIT AND GOVERNANCE COMMITTEE

### 3 DECEMBER 2021

## FINANCE IMPROVEMENT PROGRAMME

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### Recommendation

1. **The Chief Finance Officer recommends that the report be noted and further updates be brought to the Committee during 2022/23.**

### Background

2. The Finance Team undertook an improvement programme following the learning around the introduction of the new general ledger and purchasing system (E5) in 2018/19. As a result of that programme a number of improvements were made to the way the accounts were produced, the use of collaborative planning as a front end-user tool for budget monitoring, the way we processed files between Liberata and the Council, as well as performance and standardised reporting.
3. During 2021 the responsibility for accounts receivable, accounts payable and schools finance have transferred back in-house from Liberata. The E5 owners (Advanced) have also informed us they will no longer support the current version of our general ledger and as such we need to upgrade to the latest version. The Team is also continuing to seek ways to generate efficiencies to meet budget targets (both in Finance and across the Council) as well as ensuring we can develop our workforce. Finally, we are aware that Build Back Better will impact on the way we work but we do not yet know the scale of that and await the White Paper but we are planning now for ways to review the way we work with adult care clients. As such we have set about a second Finance Improvement Programme.
4. This report sets out that programme and key milestones and success factors. The changes will focus on improving the governance and financial sustainability of the organisation, whilst also ensuring stronger financial reporting. As such the Audit and Governance Committee will want to monitor progress.

### Detail

5. The programme will include six projects aimed at releasing efficiencies in both Finance and other service areas, and facilitating 'self-serve' and 'automation':

- I. **Accounts Payable** – *ensure more efficient and automated way to buy with fewer people, but higher skilled staff. This will start with re-engineering process for payments that follow the automated route and then pick up feeder system payments*
- II. **Income & Accounts Receivable** – *move more income collection to receipt of income at point before service and via a Centralised team improved income raising and more targeted debt recovery.*

- III. **E5 and collaborative Planning** – *upgrade and more user-friendly front end, with removal of recharges unless essential to improve data and budget monitoring.*
- IV. **Financial Regulations** – *ensure that rules governing meet business need and drive strong financial management, for example cannot buy without budget.*
- V. **Revenue Budget Monitoring** – *move to risk assessed self-service by budget holders and more check and challenge from Finance linked to performance / activity data.*
- VI. **People** – *workforce planning for staff to help manage succession and reductions.*

6. In addition, there is a seventh project that is part of a wider resources programme to review and improve the Council's Intranet as a single point of access and learning tool for users and managers. Within that therefore we will have **My Finance** project that will create a user (*Finance staff and clients*) friendly tool around to training, document deposits, self-service and more.

7. The aims of the Programme are to:

- add value and save money;
- plan and grow our workforce for the future need and changes, that extends to influencing our service users workforce planning also;
- be a service that is fit for the future and meets the business needs through working smarter, including digital solutions for efficiency and where/how people work to deliver the work life balances and savings. This includes a move to more self-service by users and managers; and
- be recognised as one of the best Finance Teams to work for so we can retain and attract staff.

8. The programme thus addresses a series of connected projects that drive change across all aspects of how we work and across functions:



9. We have set out a number of success factors for each project within the Programme, these include:

- **E5 (&CP)** – The Systems Team Lead will be a super user who directs development and use of system. The Accounts Tree has been reviewed and issue of nominal reporting resolved. Standard reports meet the need of users and query reporting grows to meet all of the needs of the business and Finance. E5 & CP are seen as an effective tool by all Users.
- **AP** – Smarter processes developed giving reduced processing costs; agreed policies and process for payments; Intelligent call management; greater transparency of processing costs; and limited ways to make payment. There will also be standard reports from E5 to assist all parts of Finance for monitoring and audit purposes, e.g. duplicate addresses.
- **AR** – Debt greater than 180 days are down by 50% by the end of 2022; we will centralise large parts of income management with move to more self-service and payment up front for our income streams. There will also be standard reports from E5 to assist all parts of Finance for monitoring and audit purposes, e.g. write offs. We will also only credit cash when income is received in E5/CP.
- **MyFinance** – Our intranet page will facilitate more self-service and be our interface with our internal clients (including schools). The site will enable training, reporting and logging questions, depository for information, completing tasks for self-service.
- **Budget Monitoring** – We will have a clear programme of work on a monthly cycle based on a risk assessed support programme that enables budget holder self-service, whereby green budget holders (assessed on type / volume of transactions, e.g. pay / routine; skill of budget holder; % change, feed to E5, etc...) monitor and update forecasts monthly themselves. Finance will only check 'green' areas for sense twice a year unless other intelligence

(e.g. Standard Reports such as vacancies, agency, debt, etc...) suggests otherwise. This frees resource for more work with 'Red' areas to move to amber with focus on feeder system and performance / unit data. There is a closedown timetable for each months' reports that clearly sets out responsibilities and deadlines. The accounts tree is cleansed post E5 upgrade to resolve nominals, base budget errors / gaps to make the reporting more user friendly. Payroll reconciliation is completed centrally, and service finance discussion informed of issues to check. New controls will be in place to maintain greater balance between payroll, establishment and E5.

- **People** – each function will have a Workforce Plan for all staff linked to development plans for work allocation, skills opportunities and business as usual KPIs. We will start to move to fewer job descriptions and clear progressive competencies across whole Finance Team.
- **Finance Regulations** – There will be redrafted user friendly Financial Regulations with a refresh of all policies and Schemes of Delegation to enable the business to operate in the new ways of working, e.g. debt write off.

10. We have also set out what success looks like for users of Finance, that includes:

- **Buyers** – We will look to ensure there are fewer requisitioners and buyers, and that they sit in the right place of the organisation. They will be trained and know how to process payments in the right way. This could mean less complex and support resources could be procured within a generic central team. For other teams we will work with them to standardise and automate requisition to payment process to remove inefficiencies and ensure budget reporting is right first time to reduce the number of delays and virements. E5 and Financial Regulations will not enable staff to buy where no budget exists or has been fully utilised.
- **Budget Holders** - We will be directing and moving to more self-service in most areas. We will risk rate budgets to direct the resource attributed to monitoring and support. For many (green risk) Budget Holders they will be able to understand and trust their budget data and accurately forecast their outturn without any monthly Finance support. Finance staff will use standard reports, such as vacancy rates or income targets, to assess if there is any need to check and challenge these budget holders more frequently. For other Budget Holders (Red & Amber) the focus will be to move to a situation whereby the feeder systems / performance data enables good forecasts, and Finance staff will carry out analytical checks to support conclusions and work with you on plans to recover overspend forecasts or business change. This will be facilitated by excellent training and on-going support using MyFinance. The Ledger will also be designed to ensure it is understandable and able to sit with other service data to undertake forecasting. Recharges will be reduced to a minimum to aid this understanding. Work on Accounts Payable (AP) / Income & Accounts Receivable (AR) will also improve the trust in data. Financial Regulations work will ensure everyone knows what they are responsible for. Finance leaders will meet regularly with DLTs to ensure the progress is embedding and be agile to continual learn from this.
- **Cash, cheques & card payments** - We will be significantly reducing cash impressed accounts and stopping all cheque payments by 1 April 2021. We will



work with services and Procurement to manage the use of cards to ensure ledger reporting is simpler to aid good budget monitoring. This will ensure we can look at the right number and right types of card for the business to aid efficient running of services. This could mean more or less cards but you will be engaged and understand the decisions.

- **Income and debt** – For those responsible for raising income we will be looking at:
  - a. more web booking and payment at that point to reduce debt; or
  - b. standardising the process to ensure that income is raised correctly and collected promptly through a central team.

Income will not be recognised in budgets until it is receipted in order that budget monitoring more accurately reflects this. Financial regulations will be updated to reflect this and make it clearer who can and when can debt be written off.

- **Technical and specialist areas** – given the nature of the Council services we will still have several buying / payment and income areas that involve complex regulations / transactions; are less routine and require more face to face with clients due to the type of service. It may also be that the feeder system at this stage does not support efficiencies being looked at within this programme. As such these services will remain unchanged. We will be working with services to identify these and how these could fall in later stages of the Improvement Programme.

11. We will have set out a Project Initiation Document (PID) that has identified resources, roles and responsibilities and timeframes; and we will be running the Programme using programme management tools and techniques.

12. The Project Leads are:

- **AP/AR & Income:** Head of Financial Operational Services
- **Financial Regulations:** Chief Internal Auditor
- **Budget Monitoring:** Deputy CFO
- **E5:** Chief Accountant
- **People:** Head of Financial Operational Services, and
- **MyFinance** – CFO

13. In addition, there are Strategic and Operational Boards. Assistant Director representatives from Services sit on the Strategic Board and overtime senior users will also be co-opted onto the Operational Board to ensure we have user engagement and input in the project.

14. The key dates include:

- **E5** – upgrade fully operational mid to late Feb 2022
- **People** – ongoing but pilot principles in Pension and FOS December 2021 - Feb 2022

- **Revenue Budget Monitoring** – new processes in place October 2022, Capital will follow including review of E5 new functionality
- **AR & Income** – Debt greater than 180 days down by 50% by 31 December 2022;
- **Finance Regulations** – First redraft May 2022
- **MyFinance** – TBC (a schedule is being drawn up across HR, IT, Finance and Legal)

### **Next steps**

15. The Strategic Board is meeting every six weeks to review progress and it is proposed to bring an update and next steps report back to Committee in March with a focus on progress related to E5 and Financial Regulations with further reports brought during 2022/23 on other areas.

### **Legal, Financial and HR Implications**

16. There will be a cost of resourcing this Programme, including MyFinance. At this stage a Business Case is awaiting presentation to the Strategic Leadership Team (SLT) for sign off for £0.3 million which is forecast to be repaid within 18 months. That would be funded from the Transformation Reserve.

### **Contact Points**

#### Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

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### **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

## **AUDIT AND GOVERNANCE COMMITTEE**

### **3 DECEMBER 2021**

## **RISK MANAGEMENT REPORT**

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### **Recommendations**

- 1. The Chief Internal Auditor recommends that the Risk Management report be noted.**

### **Background**

2. Risk management is an essential part of delivering good governance and supports the Council's strategic ambitions. Effective and efficient risk governance and oversight provide assurance that the Council's business activities are enhanced by opportunities, and not adversely impacted by threats that could have been foreseen.
3. We have been working with the Corporate Risk Management Group (CRMG) to embed the revised risk management approach, which categorizes risks across 10 key areas. CRMG leads have worked with operational staff to score all risks across these themes enabling more consistent monitoring. This approach is supported by the implementation of the Pentana risk management software.

### **Risk Management**

4. The first phase of the Pentana risk management software is now fully operational and tested. The second phase is currently underway which allows for directorate risk registers to be created from clearly evidenced service risk registers. This will enable the registers to be factually based with clear lines of responsibility.
5. The software allows real time updates, enabling a more proactive approach to risk management than has previously been available. A copy of each register is automatically sent to the relevant team monthly with the expectation that higher scored risks are monitored more frequently.
6. The new risk process has been integrated into the Internal Audit process with the ability to view area or service risks before creating an individual terms of reference. If Auditors are identifying risks during an audit, they can feed back to ensure the system is current and relevant.

### **Corporate Risk Management Group (CRMG)**

7. CRMG currently meets fortnightly to maintain focus on the development and testing of the new system, however this will move to a monthly focus group in the

new year. The purpose of the focused session is to ensure attention and consideration is given to new and emerging risks and relevant information disseminated to the wider risk group. The Risk and Assurance Manager will continue to evaluate risks in the system between meetings, with dashboards developed to enable changes and engagement to be monitored, and relevant CRMG leads to be challenged as appropriate.

8. The CRMG leads are engaging their service areas to complete and monitor their registers, which is supported by 1-2-1 and workshop sessions.

## **Risk Position Update**

9. At the 18 November 2021, the new risk management system includes 794 risks. These are currently divided over 10 service level risk registers which combine to make Directorate Registers and feed directly into the 10 risk objectives. We anticipate both the number of risks and registers to increase as we engage with a greater proportion of the operational areas.

10. All risks associated with the Covid-19 pandemic have now returned to a business-as-usual and incorporated into service risk registers.

## **Key Themes**

11. Three key themes are currently emerging within the risk registers:

- i. Environmental – an increase in risks associated with severe weather, specifically flooding and our ability to deliver services, which we would expect to see at this time of year. We expect this to be managed through standard response procedures and escalated where necessary.
- ii. Recruitment – high risks have been raised within Adult Social Care and Commissioning however we anticipate these risks will reduce with the successful HROD recruitment campaign.
- iii. Supplies – there is an expectation that a number of supplies will be impacted as the effects of Covid continue, including fuel, food and winter supplies. Mitigation of these risks is on a case-by-case basis.

12. In addition to these themes and supported by current mandatory training we will be putting a greater focus on fraud risk management in 2022.

## **Contact Points**

### Specific Contact Points for this report

Jenni Morris, Chief internal Auditor Tel:

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Michael Hudson, Chief Financial Officer Tel:

Ext 6268

Email: [mhudson@worcestershire.gov.uk](mailto:mhudson@worcestershire.gov.uk)

## **Supporting Information**

Appendix 1 – Risk profile

### **Background Papers**

In the opinion of the proper officer (in this case the Chief Internal Auditor) there are no background papers relating to the subject matter of this report.

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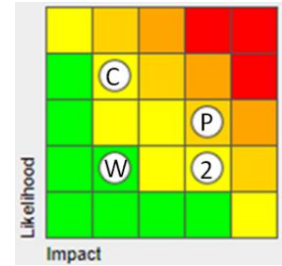
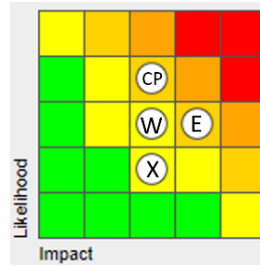
**Risk Profiles**

The top-level risk reporting is currently based on an average profile for each objective where the position of each directorate is highlighted on a heat map (below).

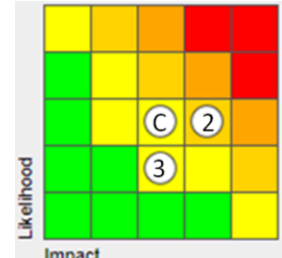
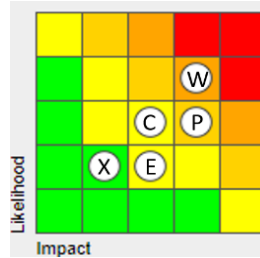
(P-PEOPLE, PH – PUBLIC HEALTH, W-WCF, X-CEU, C-COACH, E-E&I)

AREA	OBJECTIVE	Sept 2021	Dec 2021
1 Workforce	We will achieve our workforce obligations by having the right people, with the relevant level of competency, skill, or qualification, in the right roles.		
2 Health, Safety, Welfare & Environment	We will protect the health, safety, welfare and environment of our workforce and others affected by Council activities		
3 IT & Digital	We will provide the appropriate IT systems, security, and support to fulfil our business needs		
4 Financial	We will maintain the on-going financial viability of the council.		
5 Performance	We will deliver our services in line with the relevant Service Plans and objectives		

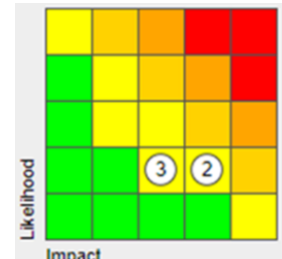
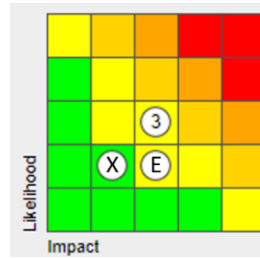
6 Reputational We will promote a positive public image in all matters relating to the council its officers & members



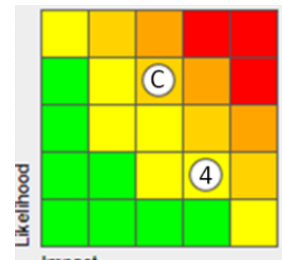
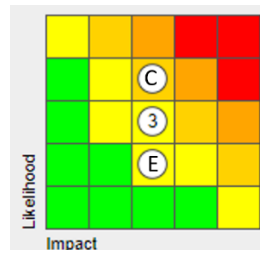
7 Compliance We will uphold all of our regulatory and statutory requirements



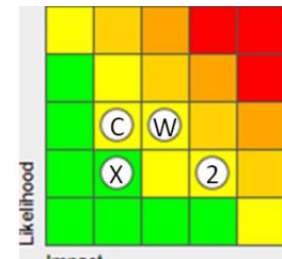
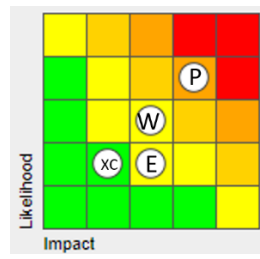
8 Information Governance We will ensure the effective, efficient, and compliant use of data



9 Supplies / Suppliers We will commit to achieving the best outcome through the appropriate use of supply and suppliers



10 Facilities / Equipment We will fulfil our obligations through the provision of the appropriate buildings, facilities & equipment



**Note:**

The second tier of reporting will be these 10 objectives on an individual directorate level which will then be evidenced from team/service level risk registers. This will ensure consistent and clear data which can be understood across the organisation.

Currently the People are the only directorate who have completed their key registers.



## AUDIT AND GOVERNANCE COMMITTEE

### 3 DECEMBER 2021

## TRAINING PROGRAMME

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### Recommendations

1. **The Chief Financial Officer recommends that the Training Programme as set out in paragraph 7 be approved.**

### Background

2. At the Committee meeting held on 29 July 2021, it was agreed that a report be prepared setting out a training programme for the life of this Council.
3. A knowledge and skills self-assessment form was circulated to Members to identify gaps in knowledge and tailor future training sessions.
4. Completed responses have been collated and a training programme has been devised to be delivered over the period to December 2024 via short sessions held in advance of each Committee meeting.
5. Initial training sessions will aim to focus on the key functions of this Committee. Where possible, training sessions will be linked to the work programme to ensure that Members receive appropriate training and information in advance of the relevant item on the agenda.
6. Where appropriate, relevant training information will be circulated in advance of each training session to ensure that members are able to gain the most benefit.

### Training Programme

7. The proposed training programme is set out below:

Committee Date	Training Subject Matter
3 December 2021	Fraud and Corruption – Detection and Prevention
11 March 2022	Accounting Estimates and Judgements
29 July 2022	Constitution and Scheme of Delegation
23 September 2022	Accounting for Property, Plant & Equipment (PPE)
2 December 2022	Risk Management and Governance
March 2023	Capital Expenditure and Financing

July 2023	Treasury Management
September 2023	Pensions Administration
December 2023	Insurance Arrangements
March 2024	Internal Audit Reporting
July 2024	National Fraud Initiative
September 2024	Finance Transactions – Accounts Payable/Accounts Receivable
December 2024	Auditing Standards and Concepts

8. There may well be matters that arise during the training plan period which may lead to changes to the programme and members will be notified of any necessary changes as and when they occur.

## Contact Points

### Specific Contact Points for this report

Michael Hudson, Chief Finance Officer, 01905 845560, [mhudson@worcestershire.gov.uk](mailto:mhudson@worcestershire.gov.uk)

Rachael Hart, Financial Reporting Manager, 01905 843165, [rhart@worcestershire.gov.uk](mailto:rhart@worcestershire.gov.uk)

Simon Lewis, Committee Officer, 01905 846621, [slewis@worcestershire.gov.uk](mailto:slewis@worcestershire.gov.uk)

## Background Papers

In the opinion of the proper officer (in this case the Chief Finance Officer) there are no background papers relating to the subject matter of this report.

## **AUDIT AND GOVERNANCE COMMITTEE**

### **3 DECEMBER 2021**

## **WORK PROGRAMME**

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### **Recommendation**

- 1. The Committee is asked to note its future work programme and consider whether there are any matters it would wish to be incorporated.**

### **Work Programme**

#### **11 March 2022**

Internal Audit Progress Report 2021/22  
 Internal Audit Plan 2022/23  
 Corporate Risk Report  
 Income and Debt Management  
 Finance Improvement Programme

#### **29 July 2022**

Internal Audit Annual Report 2021/22  
 External Audit – Audit Findings Report  
 Draft Annual Governance Statement  
 Draft Annual Statutory Financial Statements for the year ending 31 March 2022  
 Internal Audit Progress Report 2022/23  
 Corporate Risk Report  
 Income and Debt Management

#### **23 September 2022**

Internal Audit Progress Report 2022/23  
 External Auditor – Annual Audit Letter  
 External Audit – Audit Findings Report  
 Annual Governance Statement  
 Annual Statutory Financial Statements for the year ending 31 March 2022  
 Corporate Risk Report

#### **2 December 2022**

Internal Audit Progress Report 2022/23  
 Corporate Risk Report

### **Contact Points**

#### Specific Contact Points for this report

Simon Lewis, Committee Officer  
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Email: [slewis@worcestershire.gov.uk](mailto:slewis@worcestershire.gov.uk)

## **Background Papers**

In the opinion of the proper officer (in this case the Assistant Director for Legal and Governance) there are no background papers relating to the subject matter of this report.