

# Agenda

## Audit and Governance Committee

**Friday, 11 March 2022, 10.30 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, 11 March 2022, 10.30 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 10 March 2022). 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 3 December 2021. (previously circulated)	
5	<b>Internal Audit Progress Report</b>	1 - 8
6	<b>Statutory Accounts 2021/22 Progress, Accounting Policies and Estimates</b>	9 - 22
7	<b>External Auditor - Auditor's Annual Report 2020/21</b>	23 - 52
8	<b>Internal Audit Plan 2021 to 2022/23 - 2022/23 Focus</b>	53 - 70
9	<b>Risk Management Report</b>	71 - 74
10	<b>Finance Improvement Programme</b>	75 - 78
11	<b>Work Programme</b>	79 - 80

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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Thursday, 3 March 2022

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## AUDIT AND GOVERNANCE COMMITTEE 11 MARCH 2022

### INTERNAL AUDIT PROGRESS REPORT

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#### Recommendations

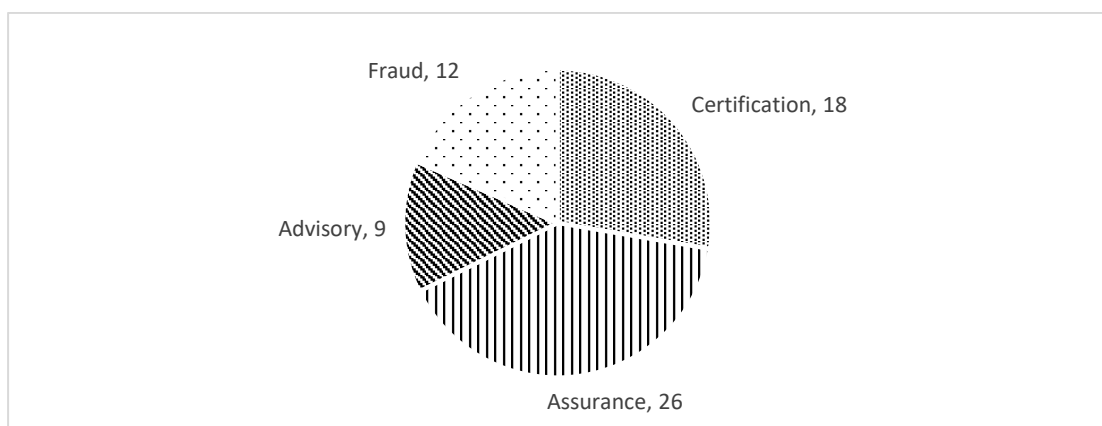
1. The Chief Internal Auditor recommends that the Internal Audit progress report be noted.

#### 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 this Committee, and this is the second year of a three-year programme.

#### Audit and compliance 2021/22

4. Progress as at the end of February 2022 is shown in Appendix 1, including planned audits for the remainder of the year.
5. The audit plan includes 65 work items, analysed in the pie chart below.



6. The current state of assurance and audit reports is shown in the table below:

<b>Audit State for assurance and advisory audits</b>	<b>Number</b>
Draft – engagement has not commenced	12
Open - ToR issued / engagement in progress	11
Complete – fieldwork finished / report issued	12
<b>TOTAL</b>	<b>35</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. 12 grants with a total value of £72.8m have been certified as accurate to date. We are currently auditing 5 grants with an income value to the Council of £2.0m and 1 grant is due to be audited March with an income value of £0.9m. Details of certification are given in Appendix 1.

8. Due to the volume of grant certifications, and delays to either notification that certification is required, or the provision of evidence experienced this year we are currently working with the Council to provide a planned approach to their certification.

### **Anti-Fraud and Corruption**

9. We have not received any new complaints or allegations this quarter. The table below gives an overview of the cases so far this year, including the key theme areas.

	<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

10. 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. We are analysing the final remaining areas, and anticipate all matches being cleared by the deadline of 31 March 2022.

### **Advisory services**

11. We continue to support the Constitutional review currently being led by the Assistant Director for Legal and Democratic Services, including updating the Council's Financial Regulations. 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**

12. 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 three audits which are listed in Appendix 2:

- Capital and Business Case Development
- Direct Payments
- Long term agency and consultancy placements

13. 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**

14. There is no change from our previous report. From our 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.

15. We have identified recurring themes on Schools audits undertaken. We will be issuing a newsletter covering the themes identified to highlight areas of good practice.

## **Contact Points**

### Specific Contact Points for this report

Jenni Morris, Chief internal Auditor

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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 Audits**

<b>Audit</b>	<b>Rating</b>	<b>Current Milestone</b>
2020/21-31 - Adult Social Care_ Working with People	Moderate Assurance	End Audit
2020/21-35 - Bewdley School & Sixth Form Centre	Moderate Assurance	End Audit
2020/21-50 - PY - Asset management - Property	Moderate Assurance	End Audit
2020/21-77 - Rushwick CoE Primary	Moderate Assurance	End Audit
2020/21-81 - Transport services, external and internal management and reporting	Substantial Assurance	End Audit
2020/21-82 - Treasury management and the prudential code (revised)	Substantial Assurance	End Audit
2021/22-07 - HR mileage and expenses	Limited Assurance	End Audit
2021/22-09 - St Egwin's Middle School	Moderate Assurance	End Audit
2021/22-19 - Coate Water Care process review	Not Applicable	End Audit
2021/22-20 - Chaddesley Corbett Endowed Primary School	Moderate Assurance	End Audit
2021/22-43 - Upton-upon-Severn CoE Primary School	Moderate Assurance	End Audit
2021/22-48 - Bayton Primary School	Substantial Assurance	End Audit
2021/22-05 - Insourced services – advisory and assurance	Not assessed	End Field Work
2020/21-47 - General Ledger Maintenance - CP / e5 upgrades	Not Applicable	Start Field Work
2021/22-03 - Digital strategy implementation	Not assessed	Start Field Work
2021/22-10 - Pensions investment review - LGPS pooling	Not assessed	Start Field Work
2021/22-50 - Grove Primary School	Not assessed	Start Field Work
2021/22-52 - St Richard's CE First School	Not assessed	Start Field Work
2021/22-69 - Financial Regulations	Not assessed	Start Field Work
2021/22-75 - Redhill Primary School	Not assessed	Start Field Work
2021/22-63 - Procure to pay FIP	Not assessed	In progress
2021/22-64 - Income to Debt FIP	Not assessed	In progress
2021/22-72 - Contract register - supplier spend analysis	Not assessed	In progress
2021/22-55 - Capital and Business Case Development	Not assessed	Planned 2021/2022
2021/22-14 - Direct payments	Not assessed	Planned 2021/2022
2021/22-15 - Debt management	Not assessed	Planned 2021/2022
2021/22-65 - Penderels Direct Payments review	Not assessed	Planned 2021/2022
2021/22-71 - Contract review - Ringway	Not assessed	Planned 2021/2022
2021/22-54 - Long term agency and consultancy placements	Not assessed	Planned 2021/2022
2021/22-68 - Business Continuity Plan	Not assessed	Planned 2021/2022
2021/22-02 - Democratic and Governance - Constitution review	Not assessed	Confirming
2021/22-22 - Registration Service - Marriage Schedule Scheme	Not assessed	Confirming
2021/22-24 - Archaeology Service - Field Section	Not assessed	Confirming
2021/22-25 - IT data use security	Not assessed	Confirming

2021/22-67 - Scheme of delegation	Not assessed	Confirming
2021/22-57 - Pension Fund investment arrangements	Not assessed	Deferred
2021/22-23 - Provider fee reviews	Not assessed	Deferred
2020/21-76 - Rigby Hall Day Special	Not assessed	Deferred
2021/22-06 - Employee starter process	Not assessed	Deferred
2021/22-11 - Comberton Primary School	Not assessed	Deferred
2021/22-49 - Franche Primary School	Not assessed	Deferred
2021/22-56 - Employee leaver process	Not assessed	Deferred
2021/22-66 - Medium Term Financial Plan	Not assessed	Deferred
2021/22-16 - Pensions administration reviews	Not assessed	Deferred
2021/22-01 - Covid related procurement arrangements	Not assessed	Removed
2021/22-70 - Procurement (process map)	Not assessed	Removed
2021/22-73 - Contract management process map	Not assessed	Removed

### Grant Certifications

Grant	Rating	Current Milestone
2020/21-24 - Track and Trace Funding Grant	Certified	End Audit
2021/22-26 - Bus Subsidy Ring Fenced Grant	Certified	End Audit
2021/22-27 - Local Transport Block Funding - Integrated	Certified	End Audit
2021/22-28 - Local Transport Block Funding - Pot Hole Action	Certified	End Audit
2021/22-31 - Disability Facilities Grant	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	Certified	End Audit
Supplementary		
2021/22-45 - EU Transition Business Readiness Growth Hub	Certified	End Audit
2021/22-53 - LA COVID19 Test & Trace Project Eagle Variant of Concern Surge Testing Grant 31/5513	Certified	End Audit
2021/22-59 - Major Project Grant: A4440 Worcester Southern Link Road Phase 4	Certified	End Audit
2021/22-61 - Broadband SEP	Certified	End Audit
2020/21-04 PY - COVID Bus Services Support 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
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

Audit Actions

	Not Due	Cleared	Transferred	0-3 months	3 - 6 Months	6-12 Months
<b>Substantial Assurance Audits</b>						
Bayton Primary School	1	4				
Transport services, external and internal management and reporting	2			2		
<b>Moderate Assurance Audits</b>						
Adult Social Care - Working with People	2	4				
Asset Management	9					
Bewdley School & Sixth Form Centre	1	10				
Chaddesley Corbett Endowed Primary School	9	4		1	1	
Legacy systems		2				1
Rushwick CoE Primary	4	4				
St Egwin's Middle School	8	4				
Upton-upon-Severn CoE Primary School	5	5				
<b>Limited Assurance Audits</b>						
Capital and Business Case Development		1	5			
Debt management					3	
Direct Payments			16			
Elmley Castle First	1	15			1	
HR mileage and expenses	3			1		
Long term agency and consultancy placements		5	2			
North Bromsgrove High School		7		1		1
	45	65	23	5	5	2

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **11 MARCH 2022**

## **STATUTORY ACCOUNTS 2021/22 PROGRESS, ACCOUNTING POLICIES AND ESTIMATES**

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### **Recommendation**

- 1. The Chief Finance Officer recommends that:**
  - a) The work in preparation for the 2021/22 Statutory Accounts be noted;**
  - b) The accounting policies for 2021/22 be approved; and**
  - c) Management arrangements to identify and evaluate accounting estimates be noted.**

### **Background**

2. This report provides a review of the County Council's accounting policies and estimates and an update on progress against the 2021/22 statutory accounts workplan.

### **Accounting Policies 2021/22**

3. The accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements. As in previous years, the notes to the 2021/22 Statement of Accounts will include the relevant accounting policy.
4. Following a review, there are no changes proposed to the Council's accounting policies for 2021/22.

### **Statutory Accounts Progress Update**

5. The Financial Reporting team is on target with both the preparation work for the Statutory Accounts production and with responses to support external audit planning and initial risk assessment activity.
6. The statutory deadline for the 2021/22 accounts process is 30 November 2022. We have prepared a detailed closedown plan to prepare accounts to be audited and ready for approval by this committee to meet the proposed deadline. Additionally, we will present draft accounts for July committee approval.

7. We continue to work closely with Grant Thornton to agree key milestones and establish a plan to address potential challenges arising from continued remote working across our respective teams.

8. In 2021/22 we appointed new external valuers: Wilks Head & Eve. We will continue to use Wilks Head & Eve to perform the asset valuations in 2021/22 in line with our rolling programme. A work instruction has been issued and valuation work will be undertaken to enable discussion and challenge prior to the presentation of the valuers' formal report in early April 2022.

9. The statutory accounts team has delivered training to finance staff and detailed closedown deadline instructions have been issued to all relevant stakeholders.

10. In 2021/22, Worcestershire County Council (WCC) will prepare group accounts to include the relevant transactions and balances from our material interests in other entities which we have determined to meet the definition of a subsidiary, associate or joint venture. Our assessment of the group boundary remains as per 2020/21:

- Worcestershire Children First (WCF) is a 100% wholly owned **subsidiary** of WCC
- West Mercia Energy (WME) is a **joint venture**

#### **Worcestershire Children First (WCF)**

11. The Council controls the entity, established as company limited by guarantee, by virtue of its 100% shareholding. WCF will be accounted for as a subsidiary with line-by-line consolidation in the group accounts, in accordance with IFRS 10: Consolidated Financial Statements.

#### **West Mercia Energy Joint Committee (WME)**

12. WME is constituted as a Joint Committee; WCC is one of four constituent authorities alongside Shropshire Council, Herefordshire Council, and Telford & Wrekin Council. In accordance with IFRS 11: Joint Arrangements, WME will be accounted for as a joint venture in the 2021/22 Group Accounts on the basis that a collaborative arrangement exists, WCC has joint control, there is a separate vehicle in place and WCC has rights to 25% of the net assets of the arrangement.

### **CIPFA Emergency Consultation**

13. Local authorities in the United Kingdom are required to maintain records and prepare accounts which are compliant with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) as prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC).

14. To alleviate current delays in the publication of audited financial statements, CIPFA has set out two emergency proposals for the update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom.

15. Options currently under consultation include the pausing of requirements for the professional revaluation of property, plant and equipment assets (to apply to accounting period commencing on or after 1 April 2021) and the deferral of the implementation of *IFRS 16: Leases*.

16. It is expected that the results of the consultation and corresponding revisions to the 2021/22 Code will be communicated before 31 March 2022. The Council has

already instructed professional valuers to undertake valuations in 2021/22 and work to prepare for the accounting requirements of *IFRS 16: Leases* is underway. We will consider the outcome of the consultation and its impact upon the 2021/22 financial statements and disclosures following communications from CIPFA.

## **Accounting Estimates 2021/22**

17. The preparation of financial statements requires management to make judgements, estimates and assumptions which affect the value of assets and liabilities reported at the balance sheet date and amounts recognised as income and expenditure in the year.

18. The material accounting estimates which affect balances and transactions in the financial statements for the year ending 31 March 2022 have been identified by management as: valuation of land and buildings, depreciation and impairment, measurement of financial instruments and the valuation of defined benefit net pension fund liabilities.

19. Our assessment of material accounting estimates in year includes consideration of the requirement for specialised skills and knowledge from management experts, e.g. asset valuations and investments, a review of the methods, models and assumptions used to inform the accounting estimates and consideration of the degree of estimation uncertainty relevant to each accounting estimate.

20. The notes to the 2021/22 financial statements will disclose the material accounting estimates included in our balances and transactions and the models and assumptions on which they are based. Where a risk of material uncertainty has been identified, the notes will include additional information to disclose the sensitivity of values to the assumptions and uncertainties and the range of reasonably expected outcomes relevant to the balance or transaction.

21. Management's assessment of material accounting estimates in 2021/22 is included as an Appendix to this report.

## **Contact Points**

### Specific Contact Point for this report

Michael Hudson, Chief Financial 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)

## **Supporting Information**

- **Appendix** – Accounting Estimates

## **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) the following background papers relate to the subject matter of this report:

Statement of Accounts including Accounting Policies 2020/21

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Estimate	Method/model used to make the estimate	Controls used to identify estimates	Use of management expert	Underlying assumptions: Assessment of degree of uncertainty/ use of alternative estimates	Change in method/model in 2021/22.
Property, plant & equipment valuations	Valuations are performed by a qualified valuer (RICS/CIB Member) in line with our 5-year rolling programme of asset valuations. A review of assets not revalued in the year is undertaken to determine the potential risk of material movement in the valuation of asset categories not revalued in year.	The specific requirements in respect of year end asset valuations are communicated to our expert valuers through a detailed work instruction (issued in January 2022). A review of draft values is performed by management to challenge and understand any unusual or significant changes in valuation. The results of this review are discussed with the valuer prior to issue of the final valuation report and inclusion in the financial statements.	Y – We have appointed RICS registered firm Wilks Head & Eve LLP to undertake our asset valuations in 2021/22.	A detailed exercise is undertaken to quantify and document our assessment of risk in respect of the assets not revalued in the year to conclude whether there is risk of material misstatement of asset values. This is informed by BCIS construction data, historic movements in land values and local/sector information. We consider the uncertainty relating to asset valuations in the context of information provided by our expert valuers alongside our local and market knowledge and input from relevant individuals across the Council.	No changes in valuation methods in 2021/22.

				<p>An estimate of the Council's exposure to this uncertainty in respect of impairment losses and revaluation losses is quantified and disclosed in the notes to the accounts.</p> <p>In 2021/22 we will consider RICS guidance, and information provided by our expert valuer, to determine any potential uncertainty as a result of the impact of COVID-19 on asset values.</p>	
Estimated remaining useful lives of PPE	The estimated remaining useful lives of PPE assets are reviewed by our expert valuer and service representatives.	Asset lives are reviewed by the expert valuers as part of our 5-year rolling programme and are considered by Directorates as part of year-end procedures.	Y – in respect of assets revalued in year.	Variations to the estimated useful life of an asset will alter the amount of depreciation charged to the Comprehensive Income & Expenditure Statement. The impact of this is minimised by the review of asset lives performed at each formal valuation as well as year-end procedures.	There are no changes to the method/models used in 2021/22.

Impairments	Assets are assessed at each year-end to determine whether there is an indication that an asset may be impaired.	Evidence of impairment is considered by the expert valuers as part of our 5-year rolling programme and by Directorates as part of year-end procedures.	Y – in respect of assets revalued in year.	Where indicators of impairment are identified, and the impact is deemed to be material, the recoverable amount of the asset is estimated and there less than the carrying value of the asset, an impairment loss is recognised for the shortfall.	There are no changes to the method/models used in 2021/22.
Depreciation and Amortisation	Depreciation is provided for on PPE assets over their useful lives, with major components depreciated separately. Assets without a determinable life (e.g. freehold land and certain community assets) or those not yet available for use (e.g. Assets under Construction) are not depreciated. Depreciation is calculated on a straight-line basis over	Depreciation is calculated based on asset values and estimated useful lives as noted above.	Y – in respect of assets revalued in year.	Variations to the estimated useful life of an asset will alter the amount of depreciation charged to the Comprehensive Income & Expenditure Statement. The impact of this is minimised by the review of asset lives performed at each formal valuation as well as year-end procedures.	There are no changes to the method/models used in 2021/22.

	<p>the remaining useful life of the asset, as determined by our expert valuer. Newly acquired assets are depreciated from the mid-point of the year. Vehicles are depreciated over the life of the asset; equipment is generally depreciated over a 5year estimated useful life; IT equipment is depreciated over 3 years.</p>				
<p>Measurement of Financial Instruments</p>	<p>The Council values its financial instruments at fair value, as informed by the advice of external and independent Treasury Management advisors and Investment Fund Managers.</p>	<p>Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts.</p>	<p>Y</p>	<p>Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks and, as per previous financial year, we will consider any additional credit risks arising as a result of the COVID-19 pandemic. Risks to accounting estimates used in our measurement of financial instruments</p>	<p>There are no changes to the method/models used in 2021/22.</p>



				are managed through our Treasury Management Strategy and the Council's overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	
Provisions for liabilities	Provisions are made whenever an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.	Information to support the calculation of provisions for liabilities is provided by our expert legal team and by Directorate teams as part of year-end procedures. Liabilities are subject to review by Service Finance Leads and challenge by Central Finance.	N	Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	There are no changes to the method/models used in 2021/22.

PFI schemes and similar contracts	PFI and similar contracts are agreements to receive services, where the responsibility for making available or improving the asset to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, it carries the assets used under the contracts on its Balance Sheet as part of PPE. The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.	Accounting transactions in year are based upon the initial assessment as informed by expert advisors. We ensure continuity and expertise of qualified accountancy staff to undertake accounting entries consistent with previously audited figures.	N	There is no exposure to risk of material uncertainty in respect of PFI transactions and balances.	There are no changes to the method/models used in 2021/22.
Non Adjusting events – events after the reporting date	The Council's s151 officer performs an assessment of events	A review of activity in the period between the balance sheet date	N	Uncertainty in respect of estimated financial impact is considered by	There are no changes to the method/models used in 2021/22.

	<p>after the reporting period. Where events provide evidence of conditions that existed at the end of the reporting period, the financial statements are adjusted. If an identified event is indicative of conditions that arose after the balance sheet date, this is a non-adjusting event and where the effect is considered to be material, disclosure is made of the nature of the event and the estimated financial impact.</p>	<p>and formal sign off of the statement of accounts is performed by the s151 officer to identify events requiring disclosure or adjustments.</p>		<p>the s151 officer in the context of the identified event.</p>	
Accruals	<p>Accruals are prepared to reflect the costs of goods and services received and the income generated for goods and services supplied up to and including the period ending 31 March 2022. Accruals of income and expenditure are</p>	<p>All accruals are reviewed and signed off by finance. Additional controls are in place for accruals over £100k and working papers are maintained to support and evidence the calculation of the accrual.</p>	N	<p>Uncertainty in respect of accrued income and expenditure is considered on an individual basis and assumptions and risk are documented as part of supporting working papers.</p>	<p>There are no changes to the method/models used in 2021/22.</p>

	calculated for amounts greater than £5k.				
Valuation of defined benefit pension amounts and disclosures	The valuation of assets and liabilities in respect of defined benefit obligations are calculated by the independent firm of actuaries. Liabilities are assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels. The LGPS has been assessed by Mercer Ltd and estimated for the Council's fund are based on the latest full valuation of the scheme as at 31 March 2019.	The Council's Pension & Investments Manager communicates with externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	Y	The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. We consider the sensitivity of the estimate based on reasonably possible changes in the assumptions occurring at the end of the reporting period.	There are no changes to the method/models used in 2021/22.
Pension Fund Actuarial Gains/Losses	The actuarial gains and losses are calculated by the independent firm of actuaries. These	The Council's Pension & Investments Manager communicates with	Y	As noted above.	There are no changes to the method/models used in 2021/22.

	figures are based on making percentage adjustments to the closing value of assets and liabilities. The Council relies on expert advice from our actuaries and all key assumptions are considered by management and disclosed in the financial statements.	externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.			
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## **AUDIT AND GOVERNANCE COMMITTEE**

### **11 MARCH 2022**

## **EXTERNAL AUDITOR – AUDITOR’S ANNUAL REPORT**

### **2020/21**

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#### **Recommendation**

- 1. The Chief Financial Officer recommends that:**
  - a) The Annual Audit Report 2020/21 as set out in Appendix 1 be noted;**
  - b) The Committee considers whether it wishes to receive any further reports on information contained in the Report; and**
  - c) The Committee considers whether there are any issues arising from the Report to draw to the attention of the Council.**

#### **Summary**

2. A representative from Grant Thornton will attend the meeting to discuss the Annual Audit Report for committee consideration.
3. Grant Thornton is responsible for producing an Annual Audit Report which brings together all aspects of external inspection work undertaken across the County Council including the audit work carried out on the accounts. The Annual Audit Report looks back over the 2020/21 year and summarises all of the reports and work the external auditors have undertaken and closes that year’s audit.
4. The Report includes the auditor’s opinion on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources and opportunities for improvement.

#### **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)

#### **Supporting Information**

- **Appendix** - The 2020/21 Annual Audit Report for Worcestershire County Council

## **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.



# Auditor's Annual Report on Worcestershire County Council

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2020-21

11 March 2022



# Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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Governance	13
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Opinion on the financial statements	22

## Appendices

- A – The responsibilities of the Council
- B – Risks of significant weaknesses – our procedures and findings
- C – An explanatory note on recommendations
- D – Use of formal auditors' powers

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive summary



## Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. We have not identified any significant Value for Money (VFM) weaknesses, but have identified three opportunities for improvement which are set out in detail within our report. We have not had to apply any of our formal auditor's powers. Information on the powers we can deploy are set out at Appendix D.

Criteria	Risk assessment	Finding
Financial sustainability	Risk of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendations made

Page 27

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and key recommendation made.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council incurred significant cost pressures relating to Covid-19, with early forecasts initially suggesting an £8.1m impact for 2020/21. The Council have worked hard to manage this position, and have finished the year with a small surplus. There is evidence across the Council of where staff have being flexible and adapted to the challenges faced, working in different services or changing working patterns to deliver the best they could for the communities of Worcestershire.



### Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting, monitoring, reporting and the medium term financial plan. We have not identified any risks of significant weakness in these areas but have identified one opportunity for improvement. Specifically:

- To review the minimum revenue provision charge to ensure it meets the statutory guidance and sufficient resource is available to support future debt repayments. The outcome of this review should be clearly reported to members.

Further details and a managements response is provided on pages 6-12.

### Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place and the changes instigated as a response to the pandemic. We have not identified any areas of significant weakness in the Council's governance arrangements with regard to managing risk, setting ethical standards, internal control and budget monitoring. We have, however, made one improvement recommendation with regard to:

- Ensuring all remaining actions arising for the task and finish group p on risk management should be implemented, including a review of effectiveness.

Further details and a managements response is provided on pages 13-16.



### Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness. Our work in this area has considered how the Council uses the information available to identify areas for improvement, how services are procured and how well it engages with partners. We have not identified any areas of significant weaknesses in arrangements. We have however, made a recommendation to further improve performance management by re-establishing historic arrangements that were suspended as a result of Covid-19. Further details and a managements response is provided on pages 17-21.



## Opinion on the financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July to December 2021. Full details of our findings from the audit are detailed in our Audit Findings Report dated 21 September 2021, which an updated version shared with the Council dated 30 November 2021.

We identified no material errors or adjustments to the outturn position but did identify material disclosure errors in the group movement in reserves statement and the capital financing requirement note. In addition, we also recommended a number of adjustments to improve the presentation of the financial statements.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported by working papers of a similar quality to last year. The use of a new valuation expert this year has meant that communication has improved and access to explanations and working papers has been better than in prior years. We received prompt responses to our transactional based queries, with our more challenging judgemental queries taking longer. Additional time was required towards the end of the audit to resolve a number of technical audit queries.

This additional work and delays in audit sign off reflects the continuous raising of the bar and us as auditors providing greater challenge to We raised four recommendations during the course of our financial statements audit, and these are included opposite.

We gave an unqualified opinion on the Council's 2020/21 financial statements on 9<sup>th</sup> December 2021.

Issue and risk	Recommendations
Ten recommendations have been identified in relation to the IT control audit. A separate IT report has been shared with management providing the detail.	<p>Management should continue to implement the recommendations as set out in the detailed IT report.</p> <p>Management response</p> <p>Officers will consider and implement the recommendations identified in the IT control audit in 2021/22.</p>
As part of raising the bar, there is a much greater focus on the clarity of financial reporting, particularly in key areas that involve estimation and judgement.	<p>Management need to undertake a detailed review against the Code and determine if the level of disclosure remains appropriate. Particular areas of focus should be PPE, pensions and financial instruments.</p> <p>Management response</p> <p>Officers will perform a full review of disclosures as part of preparation work for the 2021/22 accounts.</p>
Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisaged by IAS 540 and as described in the most recent FRC thematic review	<p>Given the additional focus on accounting estimates, management should consider working more closely with fund managers and other experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements</p> <p>Management response</p> <p>Officers will perform a full review of disclosures, and engage with experts as necessary, as part of preparation work for the 2021/22 accounts.</p>
The initial authorised journal posters listing provided by management totalled 104 authorised individuals. An analysis of the full journal population identified that 446 individuals had actually posted journals in year.	<p>We recommend that management review the number of authorised users who can post journals to ensure that it remains appropriate.</p> <p>Management response</p> <p>Officers will review the individuals authorised to post journals to ensure it is appropriate.</p>





# Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 6 to 21.

# Financial sustainability



## We considered how the Council:

- responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

As a result of the inherent uncertainty surrounding the funding of local government we identified in the audit plan a risk of significant weakness in relation to financial sustainability.

## Outturn 2020/21

The 2020/21 General Fund outturn position was a £0.783m surplus against the original budget. This outturn position reflects financial pressures associated with the pandemic, particularly across the demand led services. The Council received significant financial support from the government to fund the costs of the pandemic, which totalled almost £88m. This additional funding was spent on a range of support, which included the provision of personal protective equipment (PPE), test and trace activities, additional funding for care providers, the provision of laptops to schools and top up payments for those self isolating.

During 2020/21 the Council looked to achieve planned savings where it could, and then utilised the additional funding it was provided with to ensure that no adverse organisational or service impact occurred in the year. This approach, led to the achievement of a small underspend which the Council have chosen to use to increase it's financial resilience, allocated the surplus to earmarked reserves.

The original capital expenditure budget for 2020/21 was set at £139.9m in February 2020. This was revised during the year to £202.810m. The final year end position was a spend of £123.235m. It is not unusual to see significant slippage in the capital programme during the year and this was further compounded by the impact of Covid-19 during 2020/21.

## Covid-19 arrangements

Covid-19 posed a significant financial challenge to the Council's financial sustainability and made financial forecasting difficult as new periods of national lockdown were announced and additional tranches of government support allocated to councils. The Council avoided any knee-jerk reaction to the pandemic and did not reset the 2020/21 budget, instead adopting incremental changes to spend decisions to reflect the latest information available regarding demand and central government support.

Early on in the pandemic, when there was no certainty as to the level of government financial support, forecasts suggested a potential impact of £8.1m for 2020/21. Officers developed their own forecasting model and cashflow analysis tool to track changes to the financial position, and this was regularly reported. The forecasting tool enabled the Council to monitor the costs of the pandemic and report these through the monthly Covid-19 financial management returns to the government. As the financial year progressed and both costs and support became more certain, the net position reported to Members each quarter gradually improved.

## Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement and was predicated on the delivery of £7.1M of savings. The settlement is made up of baseline funding, plus additional grant funding for key areas of activity within the Council. The Council received an increase of 2.4% on the baseline and grant funding that was at least in line with the prior year. The Government also recognised the need to continue with a number of one-off grants to support local authorities in their response to the ongoing Covid-19 pandemic, and the Council factored these announcements into the budget as appropriate.

Covid-19 had a significant impact on previous assumptions made in the medium term financial plan and as a result the Council identified revised pressures of £26.8m, compared to when this had been previously reported in the forecast financial plan back in February 2020 as £9m.

Drawing together all of the income streams and the spending required on services, the Council reached a balanced budget position with a £3m use of reserves and the delivery of a £7.1m savings plan.

Of the £7.1m of savings identified for 2021/22, £3m is planned to come from projects within Worcestershire Children First, which is the wholly owned subsidiary of Worcestershire County Council. There is clear evidence of the company and Council working together to achieve shared goals in a challenging financial environment. Plans are in place to ensure that these savings are delivered, and reporting against these savings in 2021/22 suggest that these are on track.

Our work has confirmed that the budget is informed by the Medium - Term Financial Plan. Risks and assumptions relating to the budget are clearly set out and reported to Members.

The impact of borrowing and investment activity is reflected in the revenue budget. It is clear from the strategy that there is a balance between mitigating risk and optimising borrowing. Internal cash balances are being utilised temporarily to support the capital programme and this avoids the need to borrow from PWLB. Through careful, timely treasury management the Council is able to minimise borrowing costs and maximise funding for front line services.

As part of the budget setting process, managers within the Council assess their expenditure and income forecasts. Increases in demand led services, additional cost pressures and areas for investment are all considered, alongside areas where efficiencies could be made or additional income generated. There are clear policies to consult with stakeholders where efficiencies lead to changes in policy or established practices. There are key examples where this has worked well over recent years, including the transition to a new structure for the Council, and way of working.

Proposals on the budget are subject to review and scrutiny by a range of stakeholders, including elected members through the scrutiny process, as well as meetings with both Trade Union representatives and the Schools Forum.

Overall we found no evidence of significant weaknesses in the Council's budget setting arrangements and have not identified any improvement recommendations in respect of this process.

## Medium term financial strategy (MTFP)

The MTFP is updated regularly and then formally approved annually in February as part of the annual revenue budget setting process.

Review of the Council's MTFP indicates that financial planning is based on realistic assumptions and that these are clearly set out in reports to Members. The MTFP includes assumptions around the Adult Social Care Precept, business rate income, council tax increases, increases in demand led services, as well as pay and contractual increases.

The ability of the Council to plan into the medium term is impacted by the absence of any long term commitments over funding. This combined with the delay in the fair funding review, as well as the reset of the business rate retention scheme results in less certainty and the need for greater scenario planning.

The cumulative budget gaps identified in the February 2021 MTFP are set out in the table below.

### Cumulative budget gaps identified in the February 2021 MTFP

Year	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Budget gap	0	32,157	42,598	74,755

The Council have continued to review the impact of Covid-19 on the MTFP. Savings plans have been revisited to ensure they can be delivered, with a reset of baseline savings and efficiency targets for the 2021/22 and 2022/23 financial years. In addition, officers and members are keen to capture some of the benefits of working more flexibly across the organisation, and this is also been factored into medium term plans.

Due to the timing of this report, the 2022/23 budget has now been agreed, which has further updated the MTFP, the latest position is shown below. This reflects an improving, but still challenging position.

### Cumulative budget gaps identified in the February 2022 MTFP

Year	2022/23	2023/24	2024/25	2025/26	Total £m
Budget gap	0	10,571	12,215	9,683	32,469

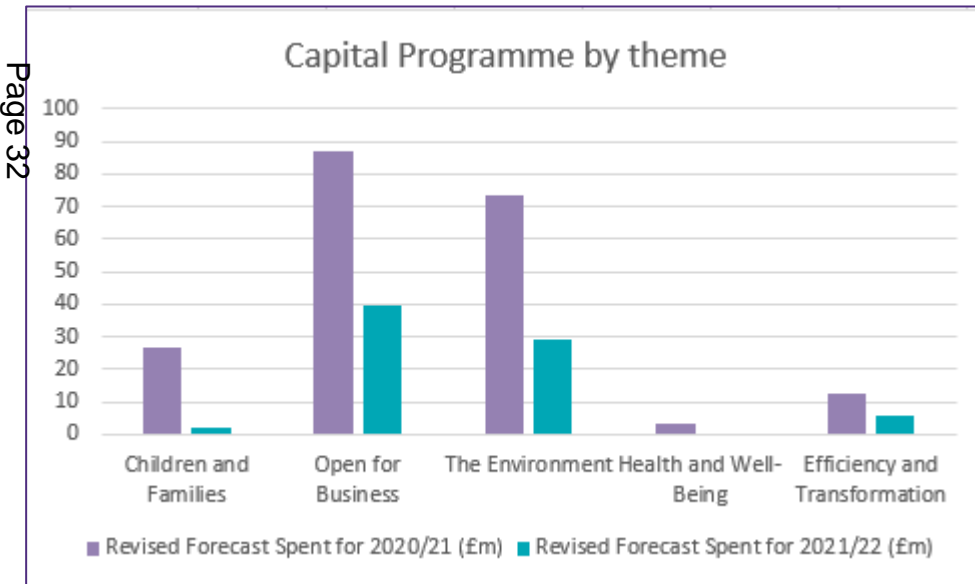
Both officers and members are aware of the challenging financial environment they operate in, and medium term financial planning continues to ensure that plans are in place to close the forecast gap in future years.

We have found no evidence of significant weakness in the Council's financial planning arrangements.

### Capital strategy and treasury management

The Council approves the Capital Programme, Capital Strategy and Treasury Management Strategy annually as part of the budget setting process.

The Council approved a £391.6m Capital Programme in February 2021 covering the period 2020/21 to 2022/23 and beyond. Of this, £76.3m was profiled to be spent in 2021/22, of which £40.9m was forecast to be funded from borrowing and £23.5m from Government Grants. The £76.3m forecast spend for 2021/22 is less than half of the forecast spend for 2020/21. This is demonstrated on the graph below. Despite the fall in the capital programme, the highest spend area remains open for business. Major schemes within the capital programme support corporate priorities, most notable schemes within ‘open for business’ include the Worcester Southern Link Road improvements, and the work on the Shrub Hill Industrial site.



Updating this for the latest position, the 2022/23 budget has approved a capital programme of £468.815m which includes the 2020/21 outturn and runs to 2023/24 and beyond. Of this, £199.517m is now forecast to be spent during 2021/22, with £92.7m of this funded from borrowing.

In line with all other local authorities, the Capital Programme can be funded in a number of ways. This includes directly from revenue, the use of capital receipts or the use of grants. Invariably though, it is heavily reliant on borrowing. The Council’s underlying need to borrow, to support the activities of the Council is monitored through a set of indicators which are reported annually. These indicators are included within the treasury management strategy, and this was approved by both Cabinet and Council in February 2020, for the 2020/21 financial year. One of these indicators is the Capital Financing Requirement (CFR), which acts as a summary of the effect of the financing and affordability decisions taken by the Council to fund capital expenditure.

There have been a number of recent high profile cases nationally where Councils have failed to appropriately calculate their CFR and as a result undercharge borrowing costs to revenue. This in turn has ramifications for financial resilience and for 2020/21 was a particular area of opinion audit focus across all our Local Government audit bodies

Our opinion audit identified that the Council had been incorrectly disclosing the financing of its Energy from Waste Plant Private Finance Initiative in the calculation of its CFR indicator. As a result, material changes were made to the disclosures in the financial statements, to reflect the correct position. These adjustments had no impact on the reported position of the Council at the 31 March 2021.

The CFR is an important indicator, as it is one of the measures that ensures capital investment decisions, in particular the level of borrowing, are taken that are affordable. To further assist Councils in ensuring this borrowing is undertaken on an affordable basis, there is statutory guidance in place which requires an annual amount to be set aside for the repayment of debt. This is known as the Minimum Revenue Provision (MRP). The broad aim of this is to ensure that sufficient funds are available to meet the costs of future debt repayments.

In 2020/21 the Council made a combined revenue charge of £13.6m in respect of MRP. This was reviewed against the statutory guidance, and it was identified that there were two capital schemes where the Council had failed to cap the estimated life of the asset at 50 years. This resulted in a potential cumulative undercharge of the MRP of £2.1m. The continued use of these higher asset lives could result in the Council not setting aside a sufficient level of funds to support future debt repayment, impacting on future financial sustainability decisions. While this is not considered a significant weakness, we have raised an improvement recommendation that management review the appropriateness of the MRP charge to ensure it does not expose the Council to financial risk in the future and the outcome of this review is clearly reported to members.



## Reserves

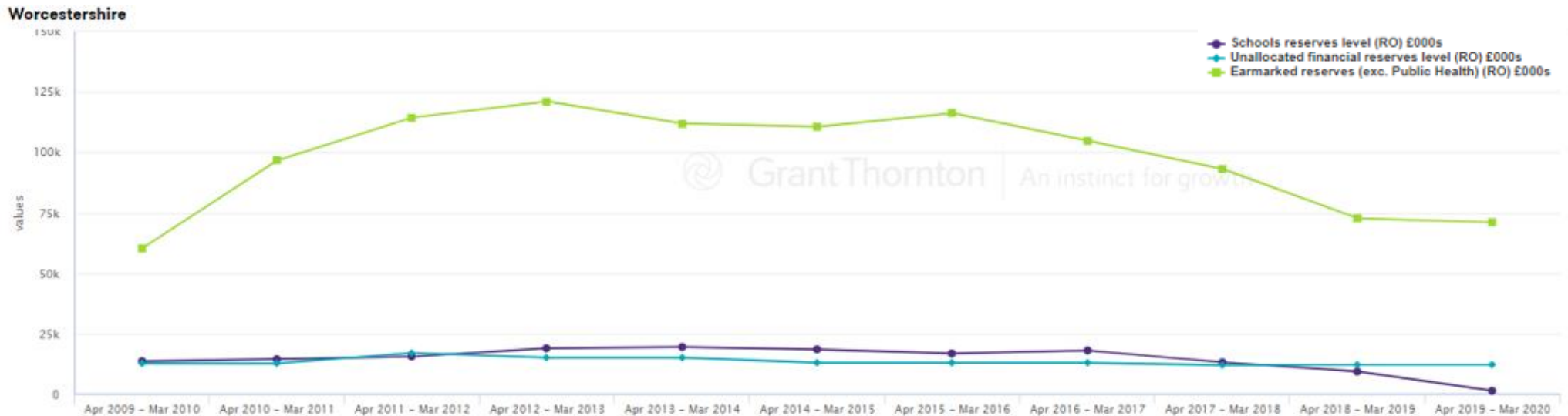
The Local Government Act 2003 requires the s151 Officer to report on the robustness of estimates within the budget and the adequacy of levels of reserves. As part of the 2021/22 budget the recommended level of General Fund (GF) balance of £12.2m was assessed as sufficient. This equates to 3.4% of the budget requirement. To inform the decision on the sufficiency of the general fund balance the s151 officer performs a risk assessment, and this is included as part of the budget reporting to members. Key elements of risk that the s151 officer has considered in making the assessment include;

- The level of savings required in year to balance the budget, and any risks associated with achieving these
- The lack of certainty over funding beyond 2021/22, and
- The need to make provision for unexpected demand on services due to unforeseen events, such as changes in care provision or adverse weather.

While the s151 officer has concluded that estimates within the budget are robust and the level of reserves is adequate, he also highlights that there is no opportunity for a further call on general fund reserves during 2021/22.

The Council's earmarked reserves provide additional sources of risk mitigation and financial resilience in addition to the General Fund balance. As at 31 March 2021 the Council had £114.7m of earmarked reserves. Included within these reserves are £17.8m which are not available to support the core spend of the Council, removing these balances gives an adjusted position of £96.9m. This is a net increase of £38.4m from the prior year position. Most significant increases were £3.1m to the reserve for open for business, which is designed to fund measures to support growth in the local economy, and £6.4m for future capital investment. The graph below shows how reserve levels have fluctuated over time, and while reserves have been falling over recent years, the unallocated reserve (GF) remains relatively stable, and earmarked reserves remain above the levels seen in 2009/10. School balances remain low, representing the challenging financial environment.

### Reserve Levels



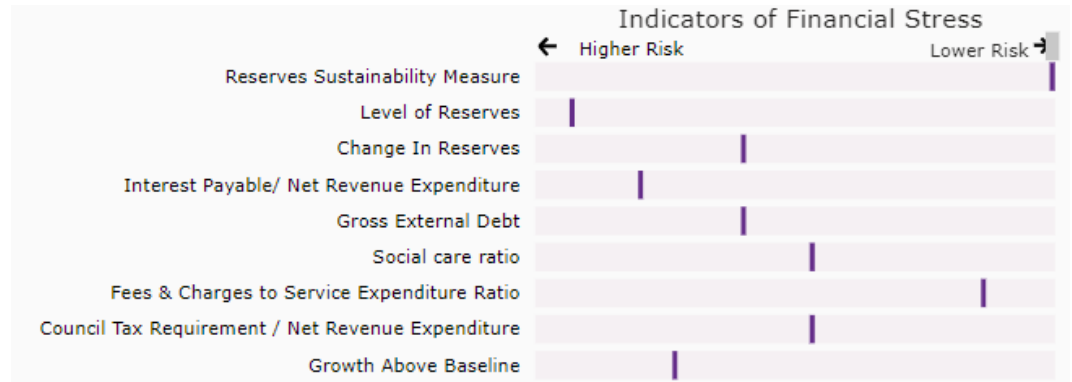
The data above is based on the 2019/20 Revenue Outturn submissions to the government.

**Reserves - continued**

When considering the financial sustainability picture, the Council reviews a range of indicators. These include the indicators published annually by CIPFA as part of their financial resilience index. The index compares Worcestershire with its nearest neighbours, and produces indicators of financial stress. The table opposite shows the results for the 2020-21 financial year.

The data shows that reserves remain low when compared to their nearest neighbour authorities, however increases in the current year have improved the position. Officers and members have demonstrated a sound understanding of the position, and continue to balance the level of reserves against the overall financial control environment.

Overall we consider the Council has adequate levels of reserves in place, and an agreed strategy to mitigate financial risk.



**Consistency between financial and other corporate plans**

The Corporate plan covers 2017 to 2022, and articulates four priorities.

**Priority: Children and Families**

**Vision and Objectives**

We are focused on improving outcomes for all children, young people and families in Worcestershire. Our ambition is to see more children and young people **achieving their full potential in education** and being fully prepared to live happy, healthy, independent and prosperous adult lives.

**Keeping children and young people safe** is a key priority for this Council and its partners. When the only safe option, for those vulnerable children and young people most at risk, is to come into our care, we will focus our efforts on providing a positive care experience in order for them to thrive and achieve their maximum potential.

**Priority: Open for Business**

**Vision and Objectives**

Worcestershire has **one of the fastest growing local economies in the country**. Being “Open for Business” remains the key priority for the Council. This is vital if both individuals and businesses are to achieve their full potential and if Worcestershire is going to continue to prosper.

A successful and growing local economy will generate wealth for residents and businesses, and this growth will increase Council income, enabling us to invest more in those areas that our residents and businesses tell us are most important to them.

**Priority: Health and Well-Being**

**Vision and Objectives**

It is our priority, working with partners, to ensure Worcestershire residents are healthier, live longer, have a better quality of life and **remain independent** for as long as possible.

We will work together with partners and communities to enable Worcestershire residents to **make responsible choices** when planning their lives to achieve the best possible outcomes. We will enable individuals to become or remain independent, self-reliant and an integrated part of their local communities.

**Priority: The Environment**

**Vision and Objectives**

Our **environment is one of the county’s key features**, providing easy access to the countryside and a wealth of stunning scenery. Our country parks, open spaces and woodlands provide great walking and cycling opportunities which support our health and well-being vision.

Worcestershire is a diverse county with fantastic examples of a historic and natural environment, which contributes to the unique character of the county.

The quality of the environment, and the recreational, cultural and heritage offer - which includes the distinction of being Elgar’s county - is crucial to the success of Worcestershire’s tourism economy. It also provides an attractive place to invest in a new business or to grow an existing one.

**A sustainable environment is important** for people’s wellbeing, the economy and for the natural environment.

## Consistency between financial and other corporate plans - continued

2021/22 is the final year of the five year corporate plan, and as a result, budget setting and the review of the financial plan was considered on an incremental basis. Decisions on new investments are clearly articulated in the budget report, and these are linked through to the areas of the corporate plan. For example, the 2021/22 budget report included the following investments aligned to the plan;

- Open for Business - £23m to support local business and recover following the impact of Covid 19
- Health and Wellbeing- £11.5m to fund the demand led pressures faced by Adult Social Care
- Children and Families - £7.7m to continue the improvement journey in Children's safeguarding
- Environment - £131m investment in the local environment and key infrastructure projects.

Savings proposals are also considered in light of the corporate plan, and these are challenged and reported regularly to both officers and members.

Our work in this area demonstrates a coherent link between corporate priorities and the design of the budget.

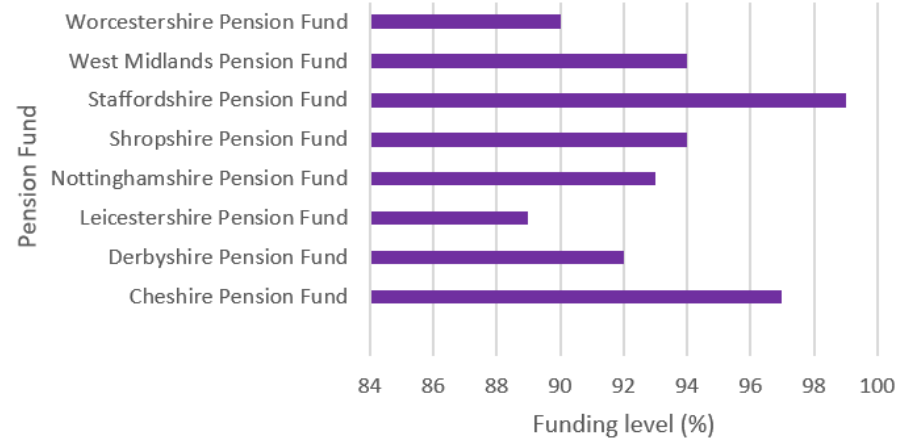
### The Pension Fund

Worcestershire County Council are the administering authority for Worcestershire Pension Fund, and as a result are required to;

- put in place arrangements to ensure that the pension fund manages its resources to ensure that it can continue to deliver it's services,
- has arrangements in place to make informed decisions and manage risk, and
- uses information about its costs and performance to manage the service.

A key measure of how resources are managed within the pension fund is the funding level. Every three years, the Fund commissions a formal valuation of the fund from an independent actuary. This valuation produces a funding level. The funding level is the level to which the liabilities of the fund, ( payments that will be required to members of the pension fund) match the fund's assets. A funding level of less than 100% implies that there is a deficit between the fund's assets and liabilities.

The most recent formal valuation of the fund was at 31 March 2019, and this gave a funding level of 90%. The chart opposite compares the funding level of Worcestershire Pension Fund, with the other members of the LGPS Central Pool.



Based on the 90% funding level, the actuary has set a common rate of contributions of 17.5% of pensionable pay per year, to meet the long term funding objective, of ensuring that assets equal 100% of the projected liabilities of the fund.

The Department for Levelling Up, Housing and Communities have commissioned further work from the Government Actuary's Department (GAD) on each of the 88 local government pension funds, with the objective of providing an update on the March 2019 actuary valuations that were undertaken. The results of this work from GAD were published in December 2021, and this has indicated that the funding level for Worcestershire Pension Fund has risen from 90% to 103%.

The fund has a Funding Strategy Statement, which is published alongside it's annual report, and this sets out how the fund will maintain the stability of contributions in the future, while meeting it's long term objectives.

From our work undertaken in this area, we have not identified any significant weaknesses.

### Conclusion

Overall, we are satisfied that the Authority has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of serious weaknesses.

# Improvement recommendations



## Financial sustainability

<b>1 Recommendation</b>	The Council should review the MRP charge to ensure it meets the statutory guidance and sufficient resource is available to support future debt repayments. The outcome of this review should be clearly reported to members.
<b>Why/impact</b>	The MRP is required to ensure that sufficient funds are available to meet the costs of future debt repayments. Any under provision of this balance will impact on the financial sustainability of the Council in future years.
<b>Summary findings</b>	In 2020/21 the Council made a combined revenue charge of £13.6m in respect of MRP. This was reviewed against the statutory guidance, and it was identified that there were two capital schemes where the Council had failed to cap the estimated live of the asset at 50 years. This resulted in a potential cumulative undercharge of the MRP of £2.1m.
<b>Management comment</b>	We will continue to review the Council's MRP provisions in line with regulations and will update the Audit and Governance Committee during 2022.



The range of recommendations that external auditors can make is explained in Appendix C.

# Governance



## We considered how the Council:

- considered the impact of Covid-19 on the governance arrangements
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## COVID-19 arrangements

During the 2020/21 financial year the Council supported the community, businesses and the delivery of critical services through the pandemic and adapted governance arrangements as required. The cabinet were fully consulted on how arrangements needed to be adapted, and officers were given authority to take appropriate action, which included authorising expenditure and making temporary changes to policy. The response focused on the implementation of the 'Gold' command structure and in line with Government guidance, moving away from business as usual activity and establishing an emergency planning approach to meeting statutory duties.

Updates were provided to Cabinet on a regular basis, with formal reports produced detailing the initial responses in key service areas, and then as the pandemic developed, how the Council needed to operate to bring about recovery. Virtual committee meetings were held during the year, including Full Council, Cabinet, Audit and Governance and Overview and Scrutiny panels. Members of the public were able to attend and take part.

Officer decisions made in dealing with the Covid-19 response were reported on the Council's website, and these included;

- The provision of personal protective equipment,
- The development of Here2Help (a community action scheme to support those in need),
- Adult Social Care Access Centre, and
- The purchase of care.

As a longer term response to the pandemic, the Council co-ordinated a joint response group 'The Worcestershire Covid-19 Economic Response, Recovery and Resilience Group'. This includes representatives from all local authorities across Worcestershire and a range of other stakeholders.

All of the above provides evidence of appropriate actions being taken to address the risks and challenges presented by the Covid-19 pandemic.

## Managing risk

In April 2020, the risk management function transferred to the Internal Audit Team, and a new Risk and Assurance Manager was appointed. The risk management process during the year largely focused on the Covid 19 response, and as such a flexible approach was adopted that enabled ongoing monitoring alongside responding to emerging risks. Risk assessment was undertaken by risk owners and then escalated to senior officers as required. Reporting continued on a quarterly basis to the Audit and Governance Committee.



During the year a task and finish group was commissioned by the senior leadership team to review the way risk is managed. The group reported in October 2021, with its overarching finding that the Council had an inconsistent approach to risk management, with the strategy in place not fully embedded. Key areas for improvement included;

- The need to update the Corporate Risk Strategy
- Risk training to be provided for all accountable staff
- Risks to be formally considered on a quarterly basis by the senior leadership team and cabinet.
- Risks to be challenged by a refreshed Corporate Risk Management Group.

The Council has continued to make improvements to arrangements during the year and has used its learning of managing risks during the Covid-19 pandemic as a way to fully embed more dynamic risk management. Corporate risks are collated centrally on a risk management system, and these are reviewed for consistency and common themes. Operational risks are held within departments and these are managed and updated on an operational basis.

Our work has not identified any significant areas of weakness with the Council's arrangements for managing risk. We do, however, recognise that there are a number of recommendations from the task and finish group report that are yet to be implemented. We have therefore included an improvement recommendation to ensure all required actions are taken and then a review of effectiveness is performed to determine if the changes have had the intended impact.

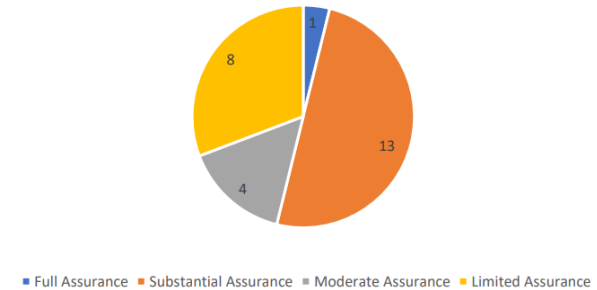
### Internal control

Internal Audit is provided by an in house team. The Internal Audit Plan for the 2020/21 financial year was approved by the Audit and Governance Committee in March 2020 and this included a number of key themes that would be audited throughout the course of the year, recognising the need to have sufficient flexibility to respond to rapidly changing events. Progress against the audit plan required changes and resource updates have been provided to members on a quarterly basis.

The development of the in house Internal Audit team has led to a change in focus of internal audit coverage. The work is focusing much more on the overall framework of policies and procedures in place and working to streamline them in a way that can be applied and understood across the organisation. The focus is very much around areas for improvement, rather than highlighting where things have gone wrong, as a result there is evidence that officers across the Council are engaging earlier with Internal Audit and responding in a more proactive way when actions are needed.

There were 31 audit themes and 12 grant certifications in the Audit Plan for 2020/21, with 26 assurance audits, 3 advisory reports and 13 grant certifications being completed. The levels of assurance assigned to the assurance reports are shown in the following pie chart.

Assurance audit ratings



The audits covered a range of departments, and included 17 audits of individual schools, as well as work on debt management, financial forecasting and the Covid-19 response. There was no work on key financial systems during the year, however, work is planned on the general ledger for 2021/22.

This work performed by Internal Audit resulted in the Chief Internal Auditor providing a moderate assurance opinion for the 2020/21 financial year. A moderate assurance opinion indicates that the system of control is generally sound, however some of the expected controls are not in place and/or are not operating effectively, increasing the risk that the system does not meet the Council's objectives.

From our work we have found no areas of significant weakness in the management and reporting on internal control.

### Monitoring Standards

There is evidence of an appropriate "tone from the top" being set in respect of decision making and ethical behaviour from senior officers and Members. Codes of conduct are in place for both Members and officers. These are contained within the constitution which is publicly available on the Council website. The constitution was last updated in December 2019, and work is currently ongoing to update this and ensure it remains fit for purpose.

Registers of interests and gifts and hospitality registers are maintained for both officers and members. These are reviewed regularly, and at least annually to ensure all appropriate disclosures are made.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer. Through our review we are not aware of any instances where officers or elected members have not complied with the necessary standards. We note that while the S151 Officer is a member of the Senior Management Team, the Monitoring Officer is not. Instead the monitoring officer reports to the Chief Executive through the Strategic Director of Commercial and Commissioning. There is no evidence that this arrangement isn't operating appropriately. We have not identified any significant weaknesses with regard to the Council's arrangements for ensuring adherence to laws and regulations or ethical standards.

## Budgetary control 2020/21

We have considered the Council's processes for monitoring the 2020/21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown, and incremental announcements of government funding.

Detailed budget reports are provided to the senior leadership team on a monthly basis, which includes an explanation of significant variances and assumptions used, a forecast outturn position, risks to the budget and actions for each chief officer to take. This process is well embedded, and has enabled the Council to continue to deliver in line with the original budget agreed by Full Council in February 2020. Public reporting on the budget is done via the cabinet, who receive financial monitoring reports at least five times a year.

As the financial year progressed the overall forecast outturn position improved as the costs of the pandemic and associated government funding became more certain. The month four position was a forecast deficit of £1.6m, with a small surplus forecast by month 9 and a final outturn surplus achieved of £0.783m.

The financial impact of Covid-19 was monitored through working papers developed to support the submission of the monthly financial management returns to the government. Key areas of costs such as adult social care and children's placements were monitored monthly as were key areas of income pressure, such as council tax. Costs and pressures were identified comparing actuals to budget and these working papers supported the quarterly budget monitoring reported to Members.

There was no requirement during the year to implement additional controls on expenditure, with the budget managed effectively through the existing systems already in place at the Council.

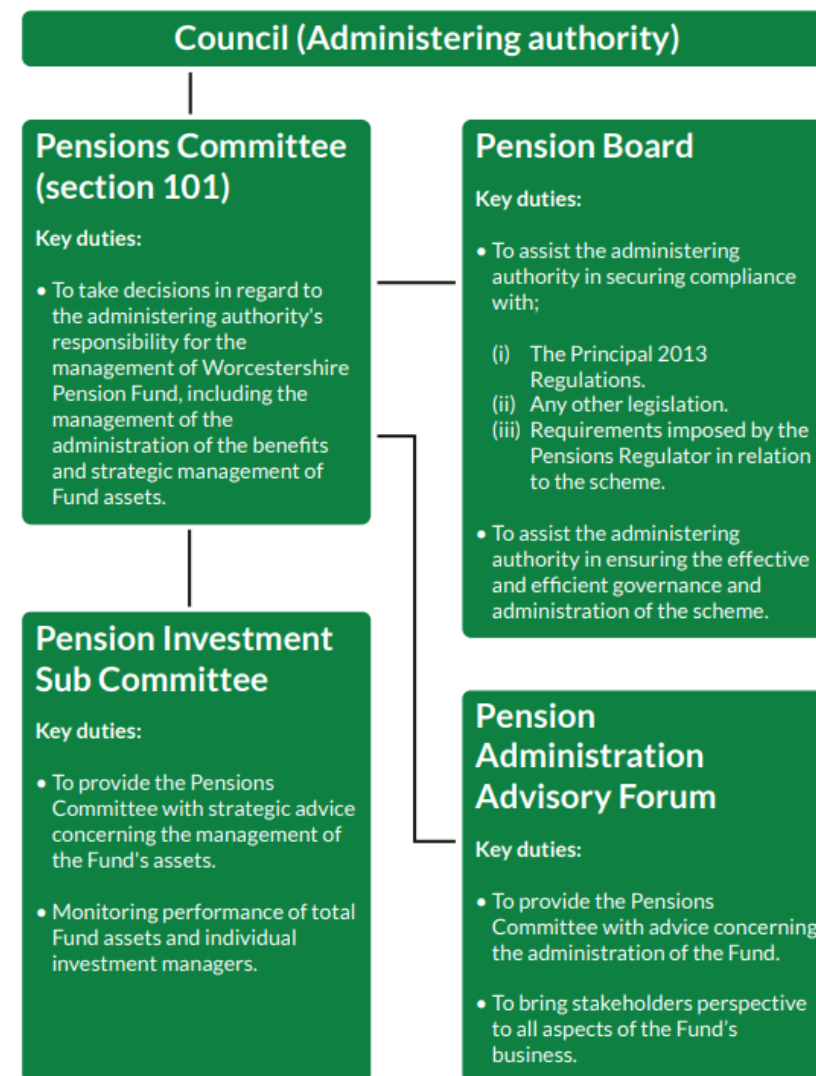
We have not identified any significant weaknesses with regard to the Council's arrangements for budget monitoring.

## The Pension Fund

Overall responsibility for managing the Pension Fund lies with the Council. The responsibility for the management and administration of the fund is then delegated to the Chief Financial Officer. The Chief Financial Officer is advised by the Pensions Committee and also take appropriate advice from the Fund's actuary and the Fund's appointed investment advisor. The Pensions Committee received recommendations from the Pension Investment Sub-Committee to enable it to discharge its responsibilities effectively. These governance arrangements are set out annually in the governance policy statement, which is published as part of the pension fund annual report. This demonstrates that the fund is compliant with the guidance. The picture opposite outlines, some of the key governance features of the pension fund.

From the work undertaken, we have not identified any significant weaknesses in the governance arrangements for the Pension Fund.

## Worcestershire Pension Fund Governance



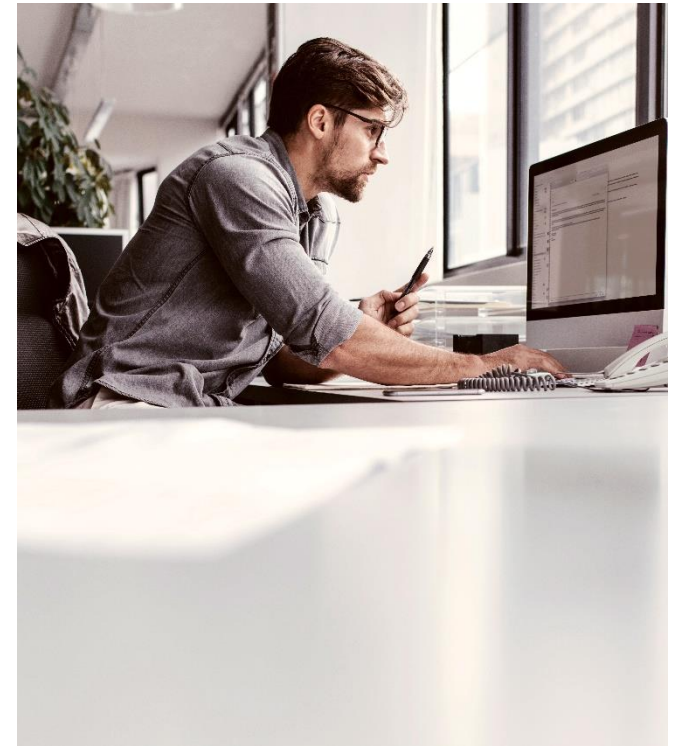
## Conclusion on Governance

Our Audit Plan did not identify any risks of significant weakness in relation to Governance, and our detailed work in this area has not identified any additional risks to consider. We have not made any key recommendations in this area, but have noted one recommendation for improvement, set out overleaf.

# Improvement recommendations

## Governance

<b>2 Recommendation</b>	All remaining actions arising from the task and finish group on risk management should be implemented, including a review of effectiveness.
<b>Why/impact</b>	Risk management is an essential part of delivering good governance, enabling Council's to ensure they are not adversely impacted by threats that could have been foreseen.
<b>Summary findings</b>	The officer task and finish group reported it's findings on risk management practices in October 2020. It's overarching finding was that the Council had an inconsistent approach to risk management, with a strategy in place that was not fully embedded.
<b>Management comment</b>	An update on the implementation of actions arising from the task and finish group will be included in the year end report presented to the July Audit and Governance Committee.



The range of recommendations that external auditors can make is explained in Appendix C.



# Improving economy, efficiency and effectiveness



## We considered how the Council:

- responded to the changes required as a result of Covid-19
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Performance management

The Council's Corporate Plan runs from 2017 to 2022 and articulates the four priorities of health and well being, open for business, children and families and the environment. The plan looked to change the role of the Council to one which is about enabling individuals, families and communities to do more for themselves, while still being there for the most vulnerable in society.

The Corporate Plan is supported by service plans and a range of indicators to enable officers and members to monitor performance and track delivery. Historically, these have been reported via a quarterly balanced scorecard, which has been published on the Council's website. Performance information has been shared regularly with the senior leadership team and a performance board. A 'Star Chamber' arrangement is used to understand where performance was not in line with expectations and agrees ways improvements could be made. Officers acknowledge that during the 12 months of 2021/22, the focus has not been on these 'business as usual' arrangements, and the efforts of both officers and members have been diverted into the pandemic response and recovery.

While some of the formal performance management processes have been put on hold, there has remained scrutiny of performance through the overview of scrutiny boards who continued to receive a range of reports. There are six scrutiny boards in place, covering the priorities from the Corporate Plan and overall corporate performance on the budget. A review of the minutes from these boards demonstrates an element of challenge and that mitigating actions are being taken when performance is seen to be dipping.

Management structures have changed during the course of the year in response to Covid-19, but also as the senior leadership team has stabilised and matured. A focus on the shape of the organisation prior to the impact of Covid-19 meant that management capacity had been improved and teams felt enabled to make decisions. A chief officer group is now in place that sits below the senior leadership team who make decisions where there is already policy in place or the scheme is already funded. This leaves the senior leadership with greater time to focus on overall strategy and new policies.

Following the outcome of the elections in May 2021, the Council have been working on the new Corporate Plan. It is anticipated that this will build on similar themes as currently in place, but will evolve to also look to harness the relationships and partnerships that have developed during the response to the pandemic to produce a plan that will deliver for Worcestershire as a whole.

As the plan develops, it is key that formal mechanisms are established to monitor performance against the plan objectives, and that this is formally reported to both officers and members, including the cabinet. Performance reporting should demonstrate clear links to the financial position, and should not be considered in isolation.

Our review of the Council's arrangements for managing performance has not identified any significant areas of weakness but arrangements could be improved by developing more formal performance reporting through to cabinet.

## Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

The Council does not routinely undertake financial comparisons or benchmarking of service performance with other local authorities. Instead, it considers benchmarking in a more targeted way when looking at individual service areas.

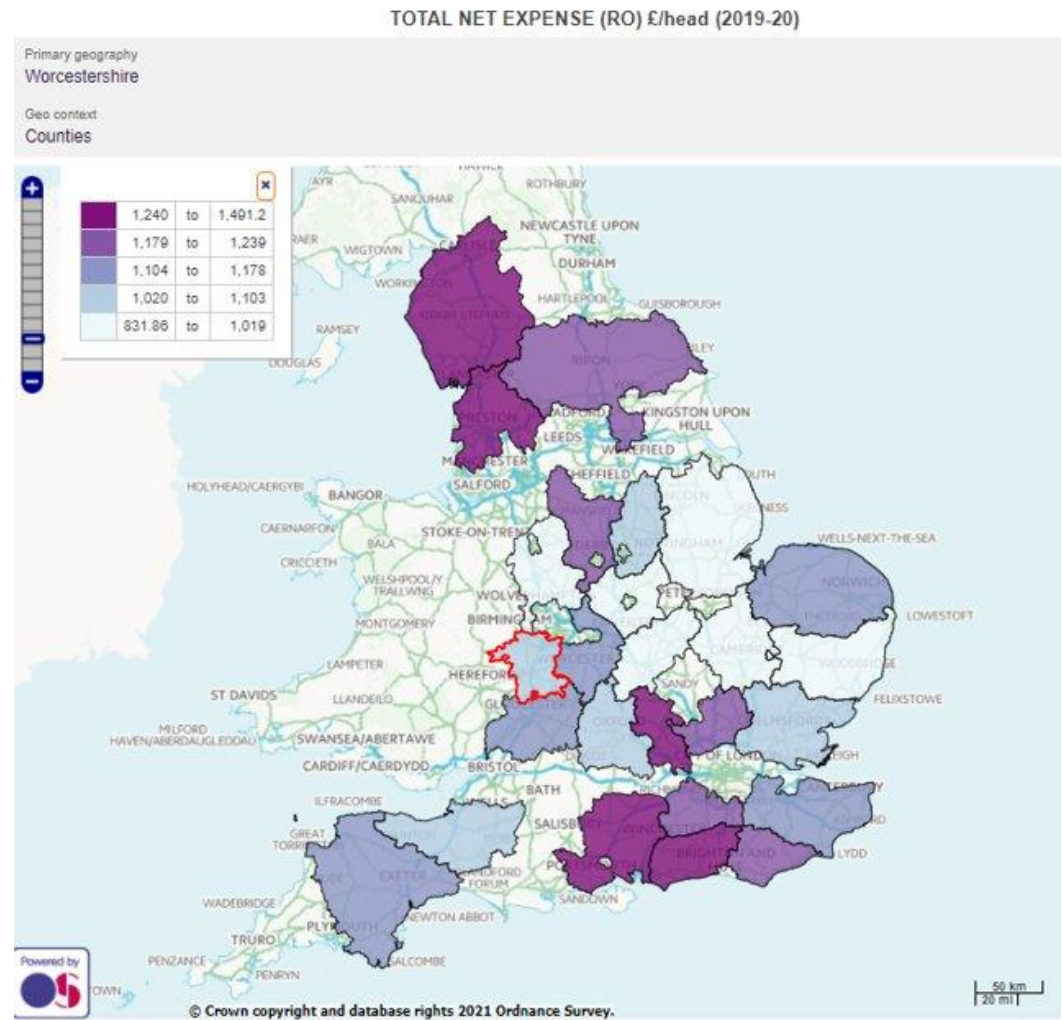
The benchmarking that we undertook using our management tool ‘CFO Insights’, compared the units costs for a range of services and identified areas where the unit costs were very high or very low in comparison to other county councils. This data was based on the latest available, which was for the 2019/20 year end. These have been discussed with the finance team as summarised below:

- Cost for highways and transport services - this focuses on revenue expenditure, which has been low in recent years because the County has chosen to invest through the capital programme in infrastructure. As a result, less ongoing maintenance is required when compared to others that have not invested to the same extent. This investment links into the corporate priority of open for business.
- Costs for culture, in particular archives and libraries are high when compared with others – the key driver for this is the private finance initiative (PFI) scheme of The Hive, which is the city centre library operated in partnership with the University.
- Similarly there are high cost in the areas of waste minimisation, recycling, agriculture and animal health – again this is related to the PFI scheme and waste recycling and incinerator plant which is shared with Herefordshire Council. While the costs are high compared with others, they are in line with the budget and expectations of the Council.
- Spend on public and sexual health is high when compared to others- finance officers have explained that this is where they have targeted certain preventative measures, and that they have used the public health grant to fund these initiatives.

Where we have identified potential outliers when compared with others, officers have had a clear understanding on why the data suggests either high or low spend when compared to others. This understanding is mirrored by members, and this knowledge is reinforced during strategic planning, when an overall context of the County is provided as part of the annual budgetary setting process.

The chart below, shows that Worcestershire is a low spending county per head of population when compared to other county councils. The data is based on the 2019/20 Revenue Outturn submissions to the government.

How does total service spend vary across my peer geographies? ^  
Total service expenditure per head (Actuals latest period)



## The Pension Fund - Benchmarking

The pension fund collects data on a range of different indicators relating to administration, governance and oversight costs. These are published as part of the pension fund annual report. Based on the latest publicly available information the comparative data for 2019/20 for total administration, governance and oversight costs are on average £35.70 per member, compared to £25.60 for Worcestershire. For investment management the average is £209.70 compared to Worcestershire which is £226 per member. This data is considered by the Pension Board.

Investment performance is also benchmarked regularly, and this is reported to the Pension Investment Sub Committee. For 2020/21 the fund underperformed its benchmark performance target by 1.5%, however it still performed well, increasing in value and comparing favourable with other LGPS funds. The fund performance was in line with the benchmark over 3 years, and over 5 years it outperformed by 0.8%.

## Significant partnerships

The Council has always recognised the importance of working in partnership with others. The impact of the pandemic has meant that relationships have deepened and matured as the Council has worked collaboratively with others to get things done. During the initial phase of Covid-19, the Local Health and Resilience Partnership to 3 times weekly and became NHS Gold when a full multiagency focussed response was required.

Officers from the Council worked with health professionals and responded by extending the Urgent Care and Community Hospital Teams to a seven day a week service, operating from 8am-8pm. Public Health also worked with Age UK to scale up the Home from Hospital discharge scheme and Independence at Home support. These changes were made possible by redeploying staff and a real focus on doing the right thing.

The challenge of ensuring access to the right support for the homelessness population was met by working closely with the district councils. A homeless task force was set up bringing together not only the district councils, but also other stakeholders such as the police and the CCG. This partnership working has developed easy access routed into health services for the homeless population which will have long term benefits as the recovery from the pandemic begins.

2020/21 was the first full year of operation of Worcestershire Children First (WCF) which was created to deliver children's services on behalf of the Council following a Direction issued by the Secretary of State. In November 2021, the Council received formal confirmation that the Direction would be removed, confirming the significant improvement made in services since the 2016 Ofsted inspection. This would not have been possible without the commitment of both officers and members of the Council and members of the company board to continue to work together to deliver the required improvements.

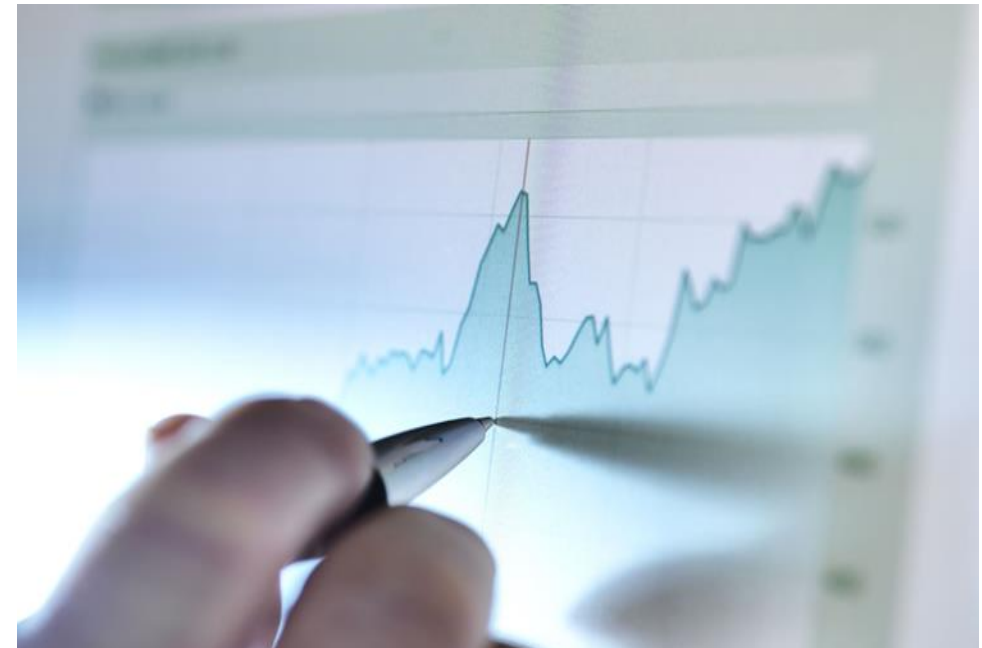
A key strand of the business plan for WCF is the need to work in partnership with the County Council. There is a recognition that the plan for the company is not just about its own priorities and visions for children and families, but also important to see them as members of the Worcestershire Community.

County Council priorities of open for business, the environment and health and well being are as important for the children and families supported by WCF as they are for the whole Worcestershire community. There is a real commitment to work together to get the best outcomes for young people and their families.

There is a clear understanding of the interdependence of the Company and the Council, but equally an understanding of the different roles that members of the board play, compared to the roles played by members of the Council. Governance structures are appropriate and there are arrangements in place via the WCF Quality Assurance Framework to analyse business and performance information on a regular basis. While this information is primarily for the company, it is shared with officers of the Council and with members of the cabinet as part of ongoing monitoring.

The Council continues to recognise the importance of Children's services, and following submission of a detailed business plan from WCF, has approved a further investment of £7.9m as part of the proposed budget for 2022/23. Further funding has also been set aside for potential pressures on the placements budget that could arise following recovery from the pandemic.

Our work has not identified any areas of significant weakness regarding how the Council works with its strategic partners.



## Procurement of services

The procurement of services falls under the remit of the Director of Commercial and Commissioning. In recent years, the activity of the procurement team has changed to ensure that it is fit for purpose and more closely aligned to the needs of the Council. The team has expanded, allowing a greater understanding of the challenges faced in procuring the right services for the Council at the right price.

In prior years, the team has focused much more on the strategic position looking at big service contracts and securing the best solution for their provision. The impact of Covid-19, has meant that the efforts of the team have had to be diverted to support the overall Council response. In particular, the team has:

- Established a PPE centre at the community equipment site, to source, stock and distribute PPE items to care home, domiciliary care providers, personal care assistants, hospices, GPs, dentist, funeral directors, district councils and schools.
- Created a food preparation and distribution hub to deliver food boxed to individuals in crisis and catering packs to street kitchens and food banks.
- Arranged alternative temporary accommodation for hospital discharge, rough sleepers and homeless.
- Agreed contracts for additional care home beds and domiciliary care support for hospital discharge.

As the impact of Covid-19 has stabilised, the team have been able to focus on key projects that would directly improve service delivery, however, there have been delays to activity in several areas identified on the forward plan. This has been reported through to members, and the arrangements have been open to scrutiny. In addition, officers have recognised the need to refresh the procurement strategy in light of the restructure of the commercial service following the impact of the pandemic. A revised strategy is due to be finalised after the publication of the revised Corporate plan.

One area of more unusual procurement activity to note is the involvement of the Council in West Mercia Energy (WME). WME is a publicly owned energy brokerage operating as a public buying organisation. There are four member authorities in the arrangement, including Worcestershire County Council. WME is managed via a Joint Committee, and there are two members of the Council that sit on the committee. WME distributes a portion of trading surpluses between the member authorities.

While the operation of a joint committee as a public buying organisation for energy is unusual, it does not present the same level of risk associated with owning or part owning an energy company. Many public sector bodies buy energy via a public buying organisation, rather than buying directly, and this arrangement has operated without significant issue for a number of years. Like other Council's, increasing energy costs will continue to place pressure on budgets in future years, and officers and members are looking at ways to mitigate this wherever possible.

An annual report is prepared for members on the activity of WME, including a discussion of the risks. The most recent report notes the challenges faced by the market and the increasing costs of energy, which would increase the financial pressure to the Council. The Council's commercial team continues to monitor the evolving position and is working through the implications of different procurement strategies and contracting models. It is acknowledged that this is a fine balance between mitigating the impact of increasing unit costs, whilst minimising risk.

Our review of the Council's arrangements for the procurement of services has not identified any significant areas of weakness.

## Conclusion on Improving Economy, Efficiency and Effectiveness

The audit plan did not identify any risks of significant weakness in relation to improving economy, efficiency and effectiveness, and our detailed work in this area has not identified any additional risks to consider. We have made one improvement recommendation in this area.



# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>8 Recommendation</b>	Formal arrangements to monitor progress against the new Corporate Plan should be put in place, following their suspension due to Covid-19 related activities.
<b>Why/impact</b>	Understanding and challenging current performance is key in ensuring that the Council can achieve its objectives.
<b>Summary findings</b>	Historically, performance has been reported via a quarterly balanced scorecard, which has been published on the Council's website. Performance information has been shared regularly with the senior leadership team, and a performance board, plus star chamber arrangements were in place to understand where performance was not in line with expectations. Officers acknowledge that during the 12 months of 2021/22, the focus has not been on these 'business as usual' arrangements, as the efforts of both officers and members have been diverted into the pandemic response and recovery.
<b>Management comment</b>	The Council's Corporate Plan is due to be refreshed shortly. Alongside this plan, and post COVID-19 monitoring, the Performance Board and improved monitoring arrangements will be in place for 2022.

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The range of recommendations that external auditors can make is explained in Appendix C.

# Opinion on the financial statements



## Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 9 December 2021.

## Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit and Governance Committee on 21 September 2021 and then with a final update on 30 November 2021.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of our audit.

## Preparation of the accounts

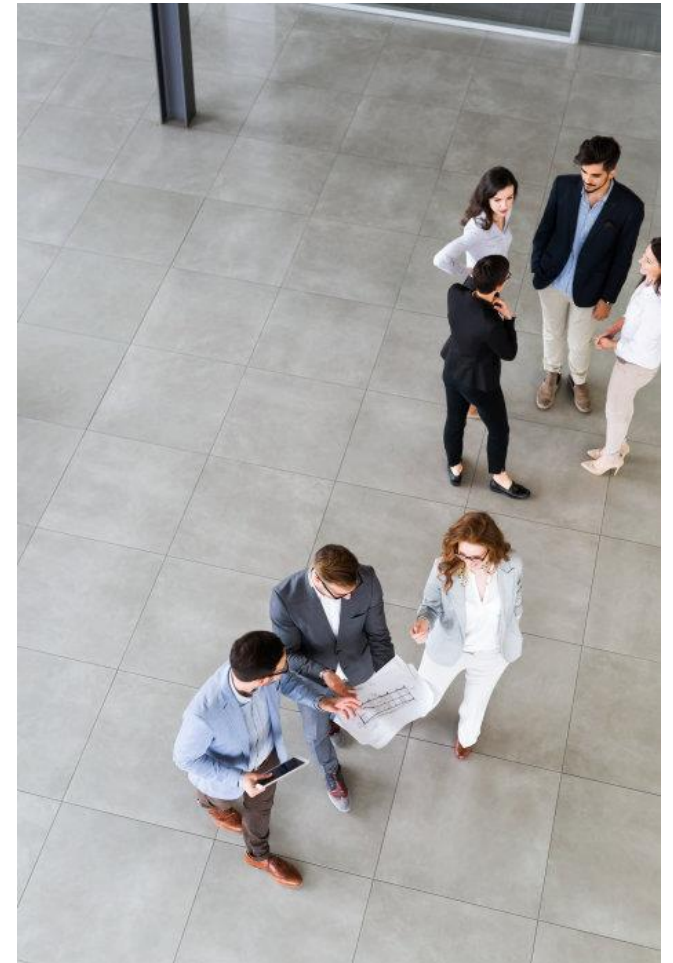
The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

## Issues arising from the accounts:

- We identified no material errors or adjustments to the outturn position but did identify material disclosure errors in the group movement in reserves statement and the capital financing requirement note.
- In addition, we also recommended a number of adjustments to improve the presentation of the financial statements.
- We raised four recommendations for officers to consider in the preparation of the 2021/22 financial statements.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



# Appendices

# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer:

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

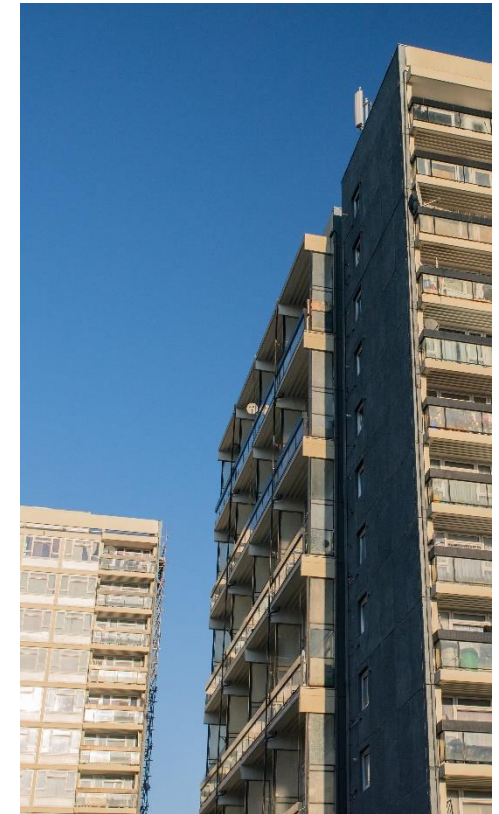
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.





# Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness, see page 6 for more details.	We have considered the outturn report for 2020/21 and progress made towards closing the gap in future years.  We have discussed with officers the arrangements in place for identifying savings and monitoring those.	Our work in this area has already been reported as part of our financial sustainability section of this report on pages 6-12.	Appropriate arrangements in place, one improvement recommendation raised.
Governance was not identified as a potential significant weakness, see pages 13 to 16 for more details.	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, one improvement recommendation raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 17 to 21 for more details	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, one improvement recommendation raised.

# Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

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Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Page 12 Page 16 Page 21

# Appendix D – Use of formal auditor’s powers

We bring the following matters to your attention:

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not issued any statutory recommendations.

## Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued a public interest report.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have not made an application to the Courts.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We have not issued any advisory notices.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not applied for a judicial review.



## **AUDIT AND GOVERNANCE COMMITTEE**

### **11 MARCH 2022**

## **INTERNAL AUDIT PLAN 2020/21 TO 2022/23 – 2022/23**

### **FOCUS**

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#### **Recommendations**

- 1. The Chief Internal Auditor recommends that the Internal Audit Plan focus 2022/23 and Audit Charter be approved.**

#### **Background**

2. The attached Internal Audit Plan and Audit Charter detail the approach we will take to provide controls assurance to the Council.
3. In line with the 3-year Plan approved in March 2020, the 2022/23 focus provides high level review areas for the year, with detailed plans for quarter 1. We have assessed the resource requirement against availability and can confirm that we will be able to deliver the required level of coverage under current arrangements. We will continually review the plan against the risks of the Council and related organisations and will provide updates to Committee on a quarterly basis.
4. The Internal Audit Charter provides the mandate under which the team operates. It has been amended to include key performance indicators which have been developed and tested during 2021/22. These indicators will be reported to Committee on a quarterly basis and will be a key tool for the Committee to monitor the activity of the team.

#### **Contact Points**

##### Specific Contact Points for this report

Jenni Morris, Chief internal Auditor  
Tel: 01905 844405  
Email: [jmorris4@worcestershire.gov.uk](mailto:jmorris4@worcestershire.gov.uk)

#### **Supporting Information**

Appendix 1 – Internal Audit Plan 2020/21 to 2022/23 – 2022/23 Focus  
Appendix 2 – Audit Charter

#### **Background Papers**

In the opinion of the proper officer (in this case the Chief Internal Auditor) the background papers relating to the subject matter of this report are:

Internal Audit Plan 2020/21 to 2022/23 – as approved by Audit & Governance  
Committee 13 March 2020



Internal Audit Plan 2020/21 to 2022/23  
2022/23 Plan focus

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Plan focus 2022/23	5



## Executive summary

The Internal Audit plan represents a summary of the planned audit review areas which will be delivered during 2022/23. This is the final year of a three-year plan approved at the 13 March 2020 Audit and Governance Committee. The mission of Internal Audit is to assist the Council to appropriately manage the key risks to which the Council is exposed, and help improve the effectiveness of the Council's governance, risk management and internal control processes by providing risk-based and objective assurance, advice, and insight.

The audit plan is based on a of risk assessment of the Council's objectives and services as detailed in the Corporate Plan. Other factors that have driven the plan include discussions with senior leadership, assessment of financial controls and grant certification requirements. The plan will also cover fraud prevention, detection, and investigation work, and special investigation support as required.

We continue to utilise agile auditing, working closely with operational managers to ensure that audits are delivered effectively. The annual plan is reviewed on a quarterly basis and the detailed focus for the quarter will be discussed and agreed with the Chief Officers' Group and the Audit and Governance Committee. The plan detailed below is for quarter 1 audits and grant certifications.

Fraud prevention, detection and investigation are a key focus, including increased training and communications for operational staff. We continue to engage with the statutory National Fraud Investigation process from the Cabinet Office and will also be working to establish continuous monitoring of key areas to mitigate potential frauds.

## Team details

Name	Role	Contact details
Jenni Morris	Chief Internal Auditor	<a href="mailto:jmorris4@worcestershire.gov.uk">jmorris4@worcestershire.gov.uk</a>
Maria Garcia	Audit Administrator	<a href="mailto:mbernal@worcestershire.gov.uk">mbernal@worcestershire.gov.uk</a>
Apprentice placement	Finance Apprentice	
Kate Kenderdine	Audit and Compliance Manager	<a href="mailto:kkenderdine@worcestershire.gov.uk">kkenderdine@worcestershire.gov.uk</a>
Sally Gill	Finance Business Partner – Internal Audit	<a href="mailto:sgill@worcestershire.gov.uk">sgill@worcestershire.gov.uk</a>
Rakhee Gogna	Finance Business Partner – Internal Audit	<a href="mailto:rgogna1@worcestershire.gov.uk">rgogna1@worcestershire.gov.uk</a>
Dominic Roberts	Auditor	<a href="mailto:droberts4@worcestershire.gov.uk">droberts4@worcestershire.gov.uk</a>
Kirsten Mackellar	Audit Assistant	<a href="mailto:kmackellar1@worcestershire.gov.uk">kmackellar1@worcestershire.gov.uk</a>
Rachel Hallam	Risk and Assurance Manager	<a href="mailto:rhallam2@worcestershire.gov.uk">rhallam2@worcestershire.gov.uk</a>
Noel Wallcroft	Risk and Fraud Officer	<a href="mailto:nwallcroft@worcestershire.gov.uk">nwallcroft@worcestershire.gov.uk</a>
Audit team		<a href="mailto:auditteam@worcestershire.gov.uk">auditteam@worcestershire.gov.uk</a>
Fraud hotline		<a href="mailto:worcsfraudhotline@worcestershire.gov.uk">worcsfraudhotline@worcestershire.gov.uk</a>

## Plan focus 2022/23

The key areas of focus are based around:

- Risk-based assurance audits
- Management requested assurance reviews and advisory support
- Individual school audits and schools-based thematic reviews
- Grant certifications
- Fraud and corruption prevention, detection, and investigation
- Worcestershire Children's First assurance reviews, advisory support, and investigatory activity as required
- Worcestershire Pension Fund assurance reviews, advisory support, and investigatory activity as required, including support to the LGPS Central Pool.

The audit plan is aligned with the categories used to categorise risk.

- Workforce
- Health and safety
- Information technology
- Financial
- Performance
- Reputational
- Compliance
- Information / GDPR
- Suppliers and supplies
- Facilities and equipment

Our resource availability for 2022/23 is 1,000 days. We continuously review our available resource to ensure that it is enough to provide the required level of assurance to the Council. We use Worcestershire Internal Audit Shared Services (WAISS) to support our IT audit work.

**Quarter 1 detail**

<b>Area of coverage</b>	<b>Brief description</b>	<b>Management lead</b>
<b>Assurance audits and advisory support activity</b>		
Workforce – starters process	End to end review of recruitment and onboarding process	Assistant Director HR OD & Engagement Assistant Director for IT & Digital
Workforce – leavers process	End to end review of leavers process	Assistant Director HR OD & Engagement Assistant Director for IT & Digital
<b>Individual school and school thematic reviews</b>		
Schools' qualitative reviews	A rolling programme of individual and school themed audits will be carried out across a range of schools based on a risk assessment. Audits will also be undertaken in response to risks raised at the School Support Forum.	WCF Chief Executive Chief Financial Officer Headteachers and Governors
Governor support and training thematic review	Limited assurance report follow-up delivery of actions and process improvements	Director of Education and Early Help
Comberton Primary School	Limited assurance follow-up (deferred from 2021/22)	Headteacher
<b>Grant certifications</b>		
Grant certifications	Certification of grants as required; quarter 1 detailed below	Various, as appropriate
Decarbonisation Grant		Director of Economy & Infrastructure
Worcester Business Central Growth Hub		Director of Economy & Infrastructure
Youth Justice Grant		WCF Chief Executive
Broadband UK		Director of Economy & Infrastructure
Contain Management Outbreak Fund		Director of Public Health
WCF Non-executive Director Grant		WCF Chief Executive
Supporting Families (1/4)		WCF Chief Executive
<b>Worcestershire Children First assurance audits and advisory support activity</b>		

<b>Area of coverage</b>	<b>Brief description</b>	<b>Management lead</b>
Procurement – Application to Procure Professional Services commissioning	Effectiveness and value for money	WCF Chief Executive
<b>Worcestershire Pension Fund assurance audits and advisory support activity</b>		
Pensions investment reviews	Scope to be determined	Chief Financial Officer
Pensions administration reviews	Scope to be determined	Chief Financial Officer
<b>Fraud and special investigations</b>		
Fraud and special investigations	Prevention, detection, and investigation of allegations and identified risk areas. All fraud allegations reported to the team will be subject to an initial triage process to determine the extent of any further investigation.	Various, as appropriate
National Fraud Investigation	Provision of key data sets to the Cabinet Office at regular intervals. Support for operational teams to investigate notified matches.	Identified NFI leads
Continuous data monitoring	Identification of key data sets to enable regular trend and matching analysis to assist in fraud prevention and risk mitigation	Internal Audit management team
<b>Management and administration</b>		
Communications – regular updates and newsletters	To include termly schools' newsletters and quarterly organisational updates.	Internal Audit management team
Contingency	There is always a need to plan for some contingency due to additional ad hoc work, such as fraud investigations, additional assurance, or overruns. This will be monitored during the year and discussed with the CFO and SLT and reported to the Audit and Governance Committee.	SLT / Chief Internal Auditor / Audit & Governance Committee
Training	Provision has been made for the team's development around professional and behavioural competencies, as well as continued development of the Internal Audit system.	Internal Audit management team
Management	There will be a need for the Internal Audit management team to produce reports, support a range of corporate meetings / projects, as well as undertake management tasks such as appraisals. This time will be monitored and discussed with the CFO and SLT and reported to the Audit and Governance Committee	Internal Audit management team





Internal Audit Charter  
2020/21 to 2022/23

## Audit charter

### 1. Introduction

The Council has committed to set up and maintain a permanent, independent, and objective internal audit function to operate across the Council. This Charter defines the purpose, objectives, and authority of the function.

### 2. Mission

The mission of Internal Audit is to assist the Council, elected members, Strategic Directors, and officers to appropriately manage the key risks to which the Council is exposed, and help improve the effectiveness of the Council's governance, risk management and internal control processes by providing risk-based and objective assurance, advice, and insight.

### 3. Objectives

The Internal Audit service:

- Provides independent and objective assurance and advisory activity.
- Adds value to the Council's operations and governance.
- Helps the Council to accomplish its activities by evaluating and improving the effectiveness of risk management, control and governance processes, taking into accounts public section internal auditing standards and guidance.
- Ensures outcomes of the audit programme are designed to provide senior management, elected members and the WCF Board with assurance that the Council is effectively governed and to provide guidance on improvements where required.
- Follows an identical audit approach for Worcestershire Children First (WCF) and maintain a separate audit plan reportable to their Board.
- Delivers audit activity as required by the Accounts and Audit (England) Regulations 2015.

### 4. Authority

To ensure the authority of the Internal Audit function the following arrangements are in place:

- The function is headed by the Chief Internal Auditor, who reports administratively to the Chief Financial Officer.
- The Chief Internal Auditor maintains regular contact with Leadership Team, including regular meetings with the Chief Executive, Strategic Directors, Chief Officers' Group, and the Leader of the Council.
- The Chief Internal Auditor attends and reports to the Audit and Governance Committee, and Strategic Leadership Team.
- The independence of the role is further supported by the arrangements for appointment and dismissal being confirmed by the Chief Executive and Chairman of the Audit and Governance Committee.

The Council cannot place any restrictions on the work of Internal Audit and staff engaged on audit work, either directly by the Council



or by one of our partners, are entitled to receive and have access to whatever information or explanations they require to fulfil their responsibilities to the Council. Internal Audit have full, free and unrestricted access to records, personnel or property of the Council; relevant security and privacy arrangements will be complied with.

## 5. Independence and objectivity

It is vital that the Internal Audit service remains independent and that the function remains free from all conditions that threaten the ability of the internal auditors to carry out their responsibilities in an unbiased manner. This includes audit selection, scope procedures, frequency, timing, and report content. Details of any impairment, in fact or appearance, will be reported by the Chief Internal Auditor to the Chair of the Audit and Governance Committee.

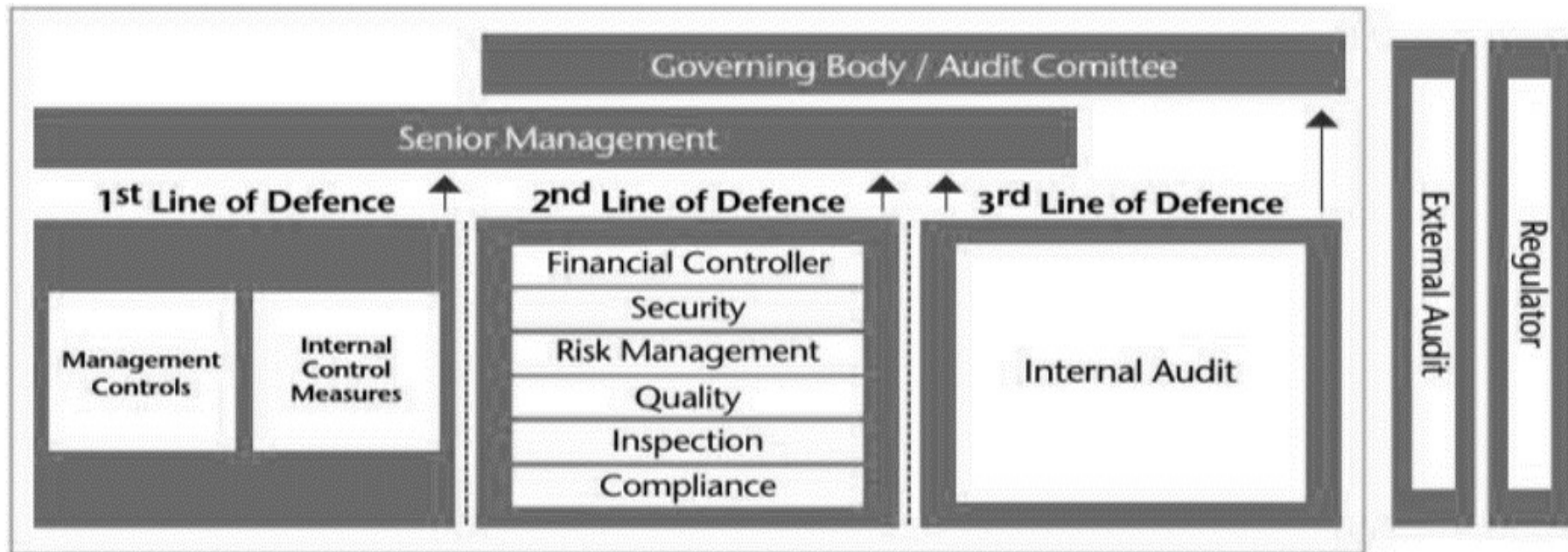
To ensure this independence and objectivity internal auditors provide advisory rather than decision making services, remaining independent of the activities we audit and rotating staff across audits.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or processes being examined
- Make balanced assessments of all available and relevant facts and circumstances
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

## 6. Organisational Status

The assurance levels are considered in conjunction with the Three Lines of Defence model.



The Three Lines of Defence model explains the relationship between the functions involved in assurance:

- 1<sup>st</sup> line of defence are the functions that own and manage risks
- 2<sup>nd</sup> line are the functions that oversee or specialize in the compliance or management of risk
- 3<sup>rd</sup> line are the functions that provide independent assurance.

## 7. Audit Approach

Internal Audit work will normally include, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments of the adequacy and effectiveness of governance, risk management, and control processes. Assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed
- The actions of the Council's officers and elected members comply with our policies, procedures and applicable laws, regulations and governance standards
- Operations or programs are being carried out effectively and efficiently

## 8. Responsibilities of Internal Audit and Officers

Internal Audit is responsible for operating under the policies established by the Council in line with professional standards and best practice. We conduct our work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by the Public Sector Internal Audit Standards (PSIAS). Under these core principles Internal audit will always:

- Demonstrate integrity
- Demonstrate competence and due professional care
- Be objective and free from undue influence
- Align with strategies, objectives, and risks of the Council
- Be appropriately positioned and adequately resourced
- Demonstrate quality and continuous improvement
- Communicate effectively
- Produce risk-based assurance
- Be insightful, proactive, and future-focused
- Promote organizational improvement

Officers are responsible for agreeing the scope of internal audit work and for implementing agreed actions. The Strategic Leadership Team supports Internal Audit and ensures there is direct access and freedom to report findings and actions. Management will notify Internal Audit of any changes to key systems, legislation, processes, or staff to enable us to consider any potential impact on the audit plan.

Deliverables and the timeline for the audit will be agreed as part of the terms of reference. If information is not provided to agreed milestones, we will agree revisions if appropriate. If, however, information is still not provided we reserve the right to issue a report specifying the impact of gaps in evidence and the assurance level provided will reflect this.

## 9. Planning and reporting

Internal Audit produce an annual plan in consultation with senior managers and considering the Council's aims, strategies, key objectives, and associated risks. The strategic plan gives a three-year overview of activity and enables forward planning for identified changes and is supported by an annual plan which includes contingency allocation to allow us to respond to changing conditions and requests from managers. The plan is approved annually by the Audit and Governance Committee. The plan is reviewed regularly, and any changes discussed with the Chief Financial Officer. These changes are reported to the Audit and Governance Committee as part of our reporting schedule. The Chief Internal Auditor reports progress on the audit plan and action implementation to the Audit and

Governance Committee. An annual report is provided giving an opinion on the Council's system of internal control. This opinion forms part of the Annual Governance Statement.

Delivery of Internal Audit activity is governed by our Internal Audit Engagement Standards, which ensure:

- Terms of reference are agreed in advance for each audit to ensure that all parties agree what the audit will cover. Reasonable notice is given about the start and process of each audit, and we will work to minimise disruption to operational teams. We reserve the right to make unannounced visits if significant control risks are identified.
- Audit reports include an opinion on the adequacy of controls in the area reviewed, detail actions for improvement and agree the allocation of management responsibility and timeline for delivery with the relevant manager. Reports are agreed with the manager, usually following a presentation of findings to assistant director or operational manager and copied to the Strategic Director. Reports with financial implications are sent to the Chief Financial Officer. Audits resulting in a limited assurance opinion are reported to the Strategic Leadership Team and Leader of the Council.

Assurance audits will give an assurance level assessment providing an indication of the relative impact of the service on the Council's overall governance and effectiveness. Audit assurance levels are:

Full assurance	The system of internal control meets the Council's objectives. All the expected system controls tested are in place and are operating effectively. Future audits are undertaken in line with standard planning
Substantial assurance	There is a generally sound system of internal control in place designed to meet the Council's objectives. Weaknesses in the design of controls or inconsistent application of controls in a small number of low risk areas put the achievement of a limited number of system objectives at risk. The resulting risk is not significant. Future audits are undertaken in line with standard planning.
Moderate assurance	The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively, increasing the risk that the system does not meet the Council's objectives. An improvement review audit is undertaken within 3 years.
Limited assurance	Weaknesses in the design and / or inconsistent application of controls puts the achievement of the Council's objectives at risk in many areas reviewed. The resulting risk is significant. An improvement review audit is undertaken within 12-18 months.

## 10. Performance Measures

It is important as part of their ongoing assessment of the governance arrangements for the Council that the Strategic Leadership Team, Members and WCF Board can assess the quality and performance of both the Internal Audit Service and the

improvement output and response from the services audited. Performance is subject to regular monitoring against the following measures.

Performance Indicator	Measure	Frequency
Percentage of audit plan delivered	Count of completion	Monthly, with quarterly reporting
Proportions of audit ratings	Count of ratings	Monthly, with quarterly reporting
Qualifications and training	Detail of qualifications held	Twice yearly
SRD output reviews	In line with corporate approach	Twice yearly
Percentage of audit actions accepted	Count of audit actions	Monthly, with quarterly reporting
Percentage of audit actions implemented on time	Count of audit actions against due date	Monthly, with quarterly reporting
Completed grant certifications	Count of certifications	Monthly, with quarterly reporting
Percentage of audits completed to milestone dates	Comparison of audit completions to milestone dates	Monthly, with quarterly reporting
Regular 121s held with each member of staff	Review of management information	Monthly, with quarterly reporting

### 11. Quality assurance

All audit documentation is subject to internal review, to ensure consistency and clarity of reporting. Internal Audit are subject to quality standards in line with PSIAS standards which require assessment on a 5 year-basis. We will carry out self-assessment annually to ensure that these standards are met. We are planning to carry out an external assessment in 2021/22.

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **11 MARCH 2022**

## **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 second phase of our risk management plan is now complete with 19 risk registers uploaded onto Pentana Risk, which encompasses 28 service areas. Risk managers have been supported to review, select, and assess the relevant risks for their areas. This enables evidenced based risks to be reviewed at either a Directorate or corporate level and allows for assessment across our 10 risk objectives.
5. The consistent design of the risk management framework allows for the introduction of key controls to mitigate multiple risks and identify areas where the individual management teams could introduce or strengthen controls.

### **Risk Position Update**

6. As at 23 February 2022 there are 1,322 risks recorded on Pentana Risk for WCC with an additional 79 for WCF. This is currently the combined number of risks from 19 risk registers across 28 service areas for the 10 corporate objectives.

7. We are now in a position to make a robust assessment of risk across the Council and plan to undertake a quality assurance review during the last quarter to strengthen this position further.

### **Key Themes**

10. The key themes remain focused both on recruitment and the environment, particularly in light of current circumstances. These are being closely monitored to ensure all appropriate controls and mitigations are in place, and we are undertaking detailed work with HR colleagues to investigate these in detail for the Workforce related risks.

11. In addition we are introducing a fraud focus to the risk registers to enable a consistent approach to the project and support our aspiration to build a stronger anti-fraud culture.

### **Contact Points**

#### Specific Contact Points for this report

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01905 844405

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Michael Hudson, Chief Financial Officer Tel:

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

### **Supporting Information**

Appendix – 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:

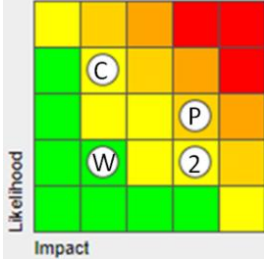
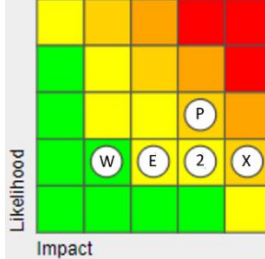
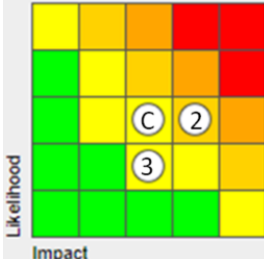
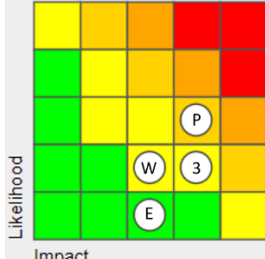
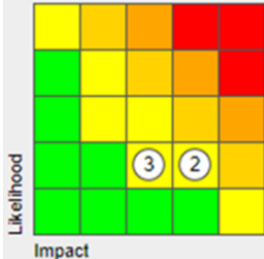
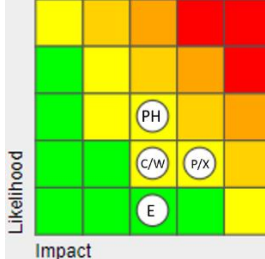
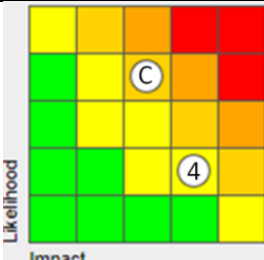
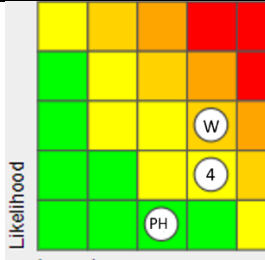
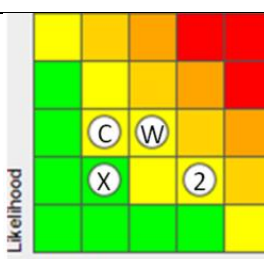
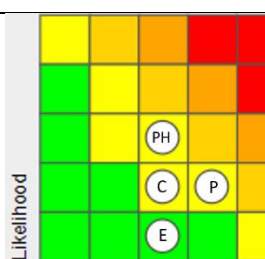


### Risk Profiles

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	Dec 2021	Mar 2022
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 is these 10 objectives on an individual directorate level which is then be evidenced by information provided on team/service level risk registers. This will ensure consistent and clear data which can be evaluated and addressed across the organisation, maximising efficiency, and reducing duplication.

## AUDIT AND GOVERNANCE COMMITTEE

### 11 MARCH 2022

## FINANCE IMPROVEMENT PROGRAMME

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### Recommendation

1. **The Chief Financial Officer recommends that the report be noted and further updates be brought to the Committee meeting in September 2022.**

### Background

2. An introduction to the planned Finance Improvement Programme was presented to the last Audit and Governance Committee in December 2021. This report provides an update on that programme and next steps.

### Detail

3. The programme includes 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; and*
  - VI. **People** – *workforce planning for staff to help manage succession and reductions.*
4. 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.

5. The key actions expected in this quarter were the E5 Upgrade and draft Financial Regulations. The following paragraphs provide members with an update, including these areas.

**- E5 and collaborative Planning –**

6. The upgrade of the general ledger was due to Go Live late February 2022. Whilst testing and preparations had gone well up to December 2022 there were three critical failures identified in January 2022, these included the collection of direct debits. As such the Strategic Board considered the risk of Go Live and potential alternative dates, against the risk of rescheduling.

7. One of the lessons learnt from the original Go Live of the system was that this go / no go decision in 2016 had not considered sufficiently the risk to such factors as the closedown of accounts. That decision had led ultimately to the accounts sign off being delayed. The Board was very aware of this fact and the close proximity of the planned Go Live date of the upgrade against the risk was assessed. Whilst there is a risk of lack of supplier support for an older version of the system as we are not changing and we have the system backed up every day, this was felt minimal.

8. As such the Board took the decision to delay the upgrade until after the production of the Accounts and between that time and the External Audit commencing. A date has thus been agreed with the system supplier for 20 / 21 June 2022. This also enables time to rectify failures as well as managing the well-being of the team. A verbal update will be provided at the next meeting.

9. A number of the developments across the other projects within the programme were dependent on the new functionality arising from the upgrade, as such we are currently revising the work programme for those areas. As such, it is proposed that a full update on the Programme be brought to the September Committee to allow time for progress to be reported.

**- Financial Regulations –**

10. The Chief Internal Auditor has drafted a number of proposed changes. These are mainly cleansing changes as a fuller constitutional review has been delayed. This does though feed into other work to be carried out in other projects within the programme, such as the debt strategy. It is still hoped that these changes can go to June/July Council.

**- People –**

11. The Financial Operational Services (FOS) undertook a full restructure as part of the programme to redesign services, allow for workforce development and future efficiencies. The consultation started early in January 2022 and closed at the end of February. There were no significant changes arising and the leadership of that function is now progressing with interviews to fill the new posts. As such there is little more to report. In the next two quarters this team will begin succession and workforce development plans, as well as take on new responsibilities and changes. All staff will

have as a result a workforce plan for the coming years by September 2022. This programme will then be rolled out across other Finance functions during 2022.

**- Income & Accounts Receivable.-**

12. Focus in the last quarter has been on chasing debt and an improved debt report being drawn up to issue to each directorate. Going forward the Strategic Leadership Team (SLT) have agreed that all services will contribute 5% of any debt needing to be chased greater than 90 days to the running of the debt team. As such this is hoped to motivate budget holders to work with FOS to prevent debt arising. Looking forward the team are focused on a number of process improvements over the next six months, including:

- Establishing a clear point of sale to bring the way income is raised into one central process.
- Working with the Internet development team to increase and improve the on-line payment facilities.
- Investigating a number of options to support a more streamlined and cost effective solution that will facilitate paperless direct debits and enable payment over telephony as well as the web.
- Investigate alternative recovery solutions and understand appetite for working with external collection agencies for particularly challenging debts.

**- Accounts Payable**

13. Several reviews have been undertaken of the post system with a view to automating and stopping various paper elements of the process. This also extends to income and debt. The recommendations from these reviews will be implemented across the next two quarters and a reduction of 1-4 days FTE a week is expected.

**- MyFinance**

14. The Council has procured a partner to redesign the Internet Webpages, as such the intranet is struggling for resources and has slipped. Senior officers are reviewing actions to see what can be done to progress the project without delay until the end of 2022.

**- Revenue Budget Monitoring –**

15. This project was set to conclude in October 2022, however the deferral of the E5 upgrade has pushed this project back until April 2023. However, work has been brought forward to align and do a parallel review of Capital as well as revenue monitoring and as such Capital monitoring is now ahead of the scheduled review of 2023.

**Next steps**

16. The Strategic Board is meeting every six weeks to review progress and it is proposed that due to the timing of the E5 upgrade and closedown of accounts to bring an update and next steps report back to this Committee in September 2022. That way

progress on the back of the E5 upgrade shall be possible. However, a verbal update on the implementation of E5 will be provided at the July Committee.

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

17. The cost of resourcing this Programme, including MyFinance, of £0.3 million was approved by SLT and is funded from the Transformation Reserve. This programme is currently thus funded and due to pay back within 18 months.

## **Contact Points**

### Specific Contact Points for this report

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## **Background Papers**

In the opinion of the proper officer (in this case the Chief Internal Auditor) the following are the background papers relating to the subject matter of this report:

Agenda papers and Minutes of the Audit & Governance Committee on 3 December 2021

## **AUDIT AND GOVERNANCE COMMITTEE**

### **11 MARCH 2022**

## **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**

#### **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  
 (Training Session on Constitution and Scheme of Delegation and Procurement)

#### **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  
 Finance Improvement Programme  
 (Training Session on Accounting for Property, Plant & Equipment (PPE))

#### **2 December 2022**

Internal Audit Progress Report 2022/23  
 Corporate Risk Report  
 (Training Session on Risk Management and Governance)

#### **March 2023**

Internal Audit Progress Report 2022/23  
 Internal Audit Plan 2023/24  
 Corporate Risk Report  
 Income and Debt Management  
 (Training Session on Capital Expenditure and Financing)

## **Contact Points**

### Specific Contact Points for this report

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## **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.