

# Agenda

## Audit and Governance Committee

**Friday, 10 March 2023, 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, 10 March 2023, 10.30 am, County Hall, Worcester**

**Membership:** Cllr Nathan Desmond (Chairman), Cllr Salman Akbar, Cllr Andy Fry, 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 9 March 2023). 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 30 November 2022. (previously circulated)	
5	<b>External Auditor's Annual Report 2021/22</b>	1 - 48
6	<b>Statutory Accounts 2022/23 Progress, Accounting Policies and Estimates</b>	49 - 72
7	<b>Annual Governance Update</b>	73 - 78
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Agenda produced and published by Hazel Best, Assistant Director for Legal and Governance County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, [slewis@worcestershire.gov.uk](mailto:slewis@worcestershire.gov.uk)

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

Date of Issue: Wednesday, 1 March 2023

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **10 MARCH 2023**

## **EXTERNAL AUDITOR'S ANNUAL REPORT 2021/22**

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### **Recommendation**

1. **The Chief Finance Officer recommends that**
  - a) **The External Annual Audit Report 2021/22 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 that it wishes to report to the Council.**

### **Background**

2. This Annual Audit report follows the receipt and discussion of the Audit Findings Reports, which were brought to Committee in November 2022.
3. A representative from Grant Thornton will attend the meeting to discuss the Annual Audit report for Committee consideration.
4. 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 2021/22 year and summarises all of the reports and work that the external auditors have undertaken. The report closes the 2021/22 audit.
5. The report includes the auditor's opinion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources, and opportunities for improvement.

### **Contact Points**

#### Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

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

Chris Bird, Chief Accountant

Tel 01905 846994

Email: [cbird1@worcestershire.gov.uk](mailto:cbird1@worcestershire.gov.uk)

## **Supporting Information**

- Appendix: 2021/22 Annual External Audit Report

## **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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2021/22

January 2023



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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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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

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# Executive summary



## Value for money arrangements and key recommendation(s)

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.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our 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. Our conclusions are summarised in the table below.

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Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made	No significant weaknesses in arrangements identified, but four improvement recommendations made.	Stable
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made	No significant weaknesses in arrangements identified, but three improvement recommendations made.	Stable
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendations made	No significant weaknesses in arrangements identified, but three improvement recommendations made	Stable

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

# Executive summary



## Financial sustainability

Overall we are satisfied that the Council has appropriate arrangements in place to manage its financial resilience. We note that it has an appropriate budget setting and medium term financial planning process.

There remains uncertainty around the future funding of the Council and the plans needed to mitigate the funding gaps in the future. We note that the Council may need to utilise its earmarked reserves in the short term. Although this is not unusual given the financial pressures facing local government, it does not provide a long term solution to ensure the financial sustainability of the Council. The Council will also need to address its ability to plan and deliver on its savings plans.

Due to the high level of reserves held by the Council we do not consider this to be a significant weakness. However, we have made recommendations with regard to the need to address the financial shortfall in the medium term.



## Governance

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 decision making. We have made a number of improvement recommendations to assist the Council in developing and embedding its Risk Management Framework and arrangements.



## Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made improvement recommendations to ensure reporting performance against the Council's Corporate Plan priorities is launched and published.

We have also provided information from our benchmarking exercise to aid the Council in identifying its high cost services.



We have completed our audit of your financial statements and issued an unqualified audit opinion. Our findings are set out in further detail on 39 and 40.





# Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have completed our audit of your financial statements and plan to issue an unqualified audit opinion. Our findings are set out in further detail on pages 39 to 40.

## 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 did not need to utilise these additional audit powers.

## 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.

## 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.

## 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.

## 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.

# Securing economy, efficiency and effectiveness in the Council's 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.

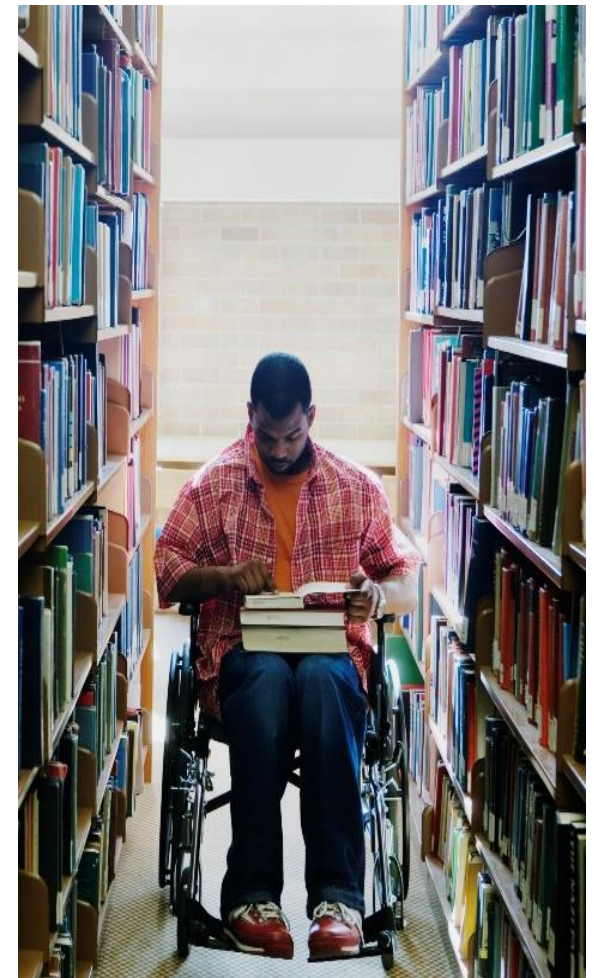


## Improving economy, efficiency and effectiveness

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 the Council's arrangements in each of these three areas, is set out on pages 7 - 39. Further detail on how we approached our work is included in Appendix B.





# Financial Sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them 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 which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Outturn 2021/2022

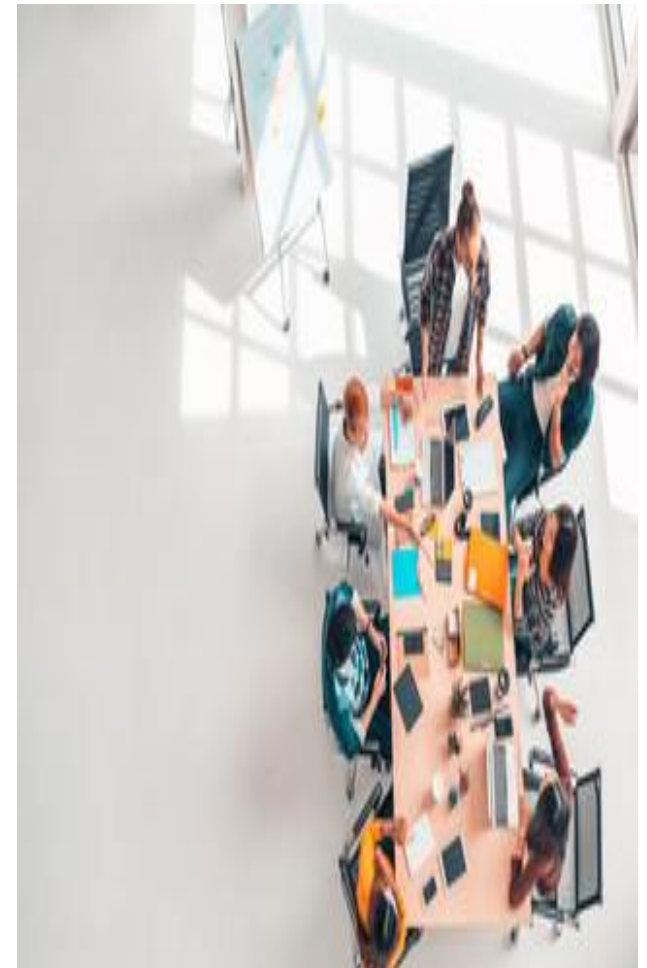
The financial position reported in the Council's Statutory Accounts for 2021/22 was an underspend of £1.336 million against a net £352.5 million budget, that is a -0.4% variance. In addition to the net base budget, the Council had £70.4 million of COVID related grant income available to use in 2021/22; this was made up of £46.9 million received in 2021/22 and £23.5 million brought forward from 2020/21. The majority of these grants were awarded for specific purposes. Those relating to Adult Social Care were allocated directly to providers.

The £1.336 million underspend was added to the Council's General Fund Reserves increasing the balance to £14.3 million, which is equivalent to 3.8% of 2021/22 net expenditure. It is the responsibility of the Section 151 Officer to advise the Council of the minimum level of reserves required based on an annual assessment of risk. In February 2021 the Council's General Fund estimated was £12.2 million. This means the General Fund Reserve at year end was in line with the recommended level.

There has also been an increase of £47.5 million in reserves, £42.9 million of which relates to earmarked reserves taking the balance of useable reserves at 31<sup>st</sup> March 2022 to £144.4 million. Reserves have increased due to unspent grant monies and the establishment of additional reserves for specific areas of risk including financial, Business Rate and Public Health risk as detailed to the Cabinet in July 2022.

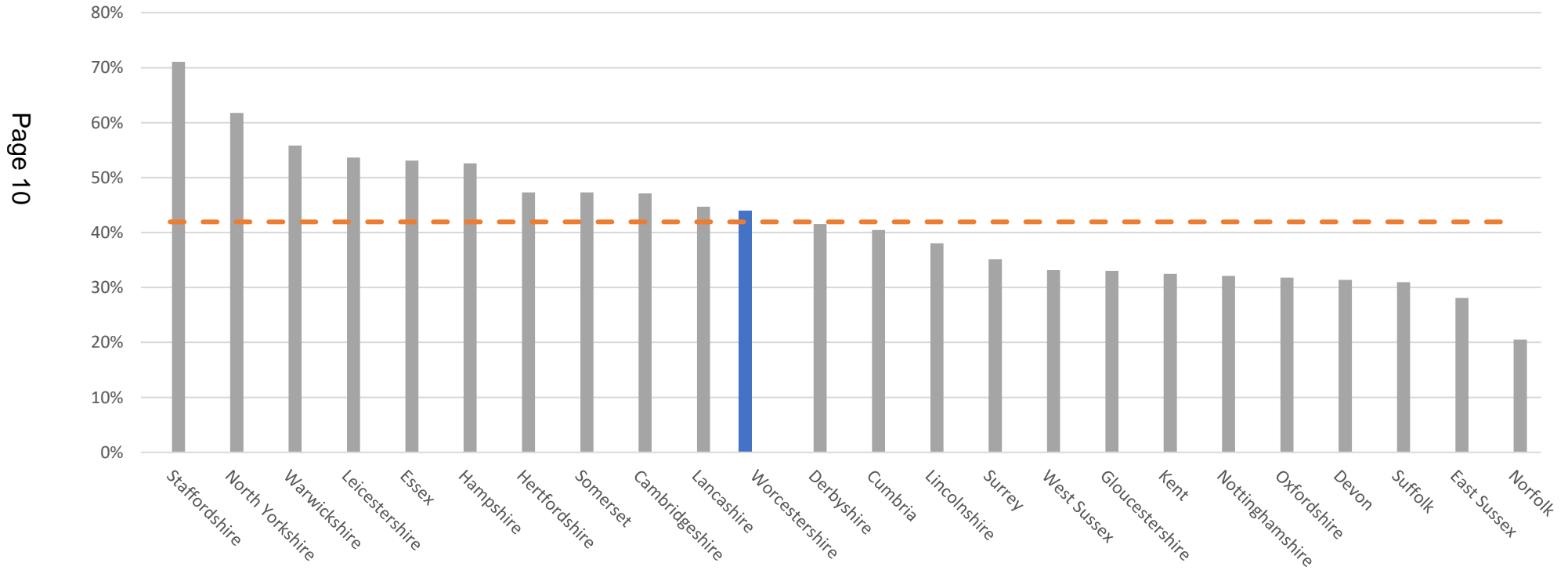
Children's services in Worcestershire are delivered by a company wholly owned by the Council – Worcestershire Children First (WCF). The 2021/22 year end position for WCF reported an underspend position of £0.05 million. This has been added to the Council's earmarked reserves for Children and Family Services.

Using data from the 2021/22 statement of accounts, the total level of General Fund and Earmarked reserves that the Council holds as a proportion of the net cost of services is similar to other county councils at 44% of net budget spend in comparison to the average of 42%. This demonstrated in the table on the following page.



# Financial Sustainability

General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)



The Average General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure 42%

# Financial Sustainability

## 2022/23 Budget

For 2022/23, in line with legislation, the Council has set a balanced budget at £373.199 million.

The Council has a robust organisational approach to setting the annual budget, which is based on corporate priorities. There is good Member engagement during the budget setting process, with Member budget briefings and review of budget proposals by the Scrutiny Committees.

The Council developed the 2022/23 budget using a 'roll forward' approach utilising the prior year budget assumptions and updating for known changes in expenditure and funding. This roll forward approach is a well-established methodology applied at the Council and across the sector.

The Chancellor's Spending Round 2021 (SR21) announcement on 27 October 2021 indicated overall levels of funding available to councils. Further details of the Provisional Settlement were published 16 December 2021. This included setting a Council Tax referendum limit of 2% for general purpose, 1% for social care and any carried forward percentage relating to Adult Social Care Levy not applied in 2021/22, when a levy was announced and could be spread across 2021-23 capped at 3%. As Worcestershire County Council implemented a 1% Adult Social Care Levy in 2021/22 that enables up to 2% of the 2021-23 levy available to be applied in 2022/23. Therefore, Cabinet proposed 3% (1% plus 2%) to be directed to supporting Adult Social Care to reflect the additional costs and demand on care arising from COVID and ensure the most vulnerable in society are protected.

Due to the impact of COVID, rise in inflation and current cost of living, Cabinet agreed a 0.94% increase in Council Tax.

Overall, the Council's income from Council Tax and Government grants gives rise to a total forecast increase in its net income of £40.6 million in 2022/23 when compared to 2021/22.

We consider that the funding assumptions were all in line with expectations and deemed to be realistic based on the information available at the time the budget was produced. Budget inflation, pay and social care costs are those area we would expect to have the largest impact to the spending power of the Council, and all have been sufficiently considered and updated.

A non-pay inflation rate budget of £4m has been identified to reflect the Council's commitment for contracted goods, works and services which is broadly in line with the original MTFP forecast.

Net Service Demand and growth has been budgeted at £28.1m. The Council has also budgeted for a Pay Inflation pressure of £6.2m following the Government announcement to end the public sector pay freeze giving rise to a higher than anticipated pay rise settled nationally in 2021/22 and expected again around 2% in 2022/23.

The budget setting process is a 'live' approach, where the budget assumptions are continuously reviewed throughout the year via the budget monitoring reports and meetings between Finance and the Directorates and so we acknowledge that mechanisms are in place to make updates for key assumptions for example changes in inflation.



# Financial Sustainability

## Medium Term Financial Plan (MTFP)

Financial planning across local government is made more difficult due to the uncertainty created from annual finance settlements and the delay to funding reforms such as the fair funding review, social care reform and the business rate reset. Despite this uncertainty, our review of the Council's financial planning process indicates that it is based on realistic assumptions and arrangements are robust.

The Council continues to update its MTFP annually during the budget setting process. This involves updating for the future funding landscape (known or forecast) and estimating future expenditure forecasts using the current budget as a baseline. In addition, there has been analysis undertaken on expected risks and pressures and these have been incorporated into the budget and MTFP.

Financial planning assumptions are set out and updated through the MTFP and considered by Members in October 2021, January 2022 and February 2022 as part of the budget setting process. Assumptions include treatment of key expenditure drivers such as the pay award, inflation, and demographic and demand changes which are particularly acute in Adult's and Children's Services. The level of inflation currently experienced within the 2022/23 budget would have been difficult to predict, but demonstrates the value of sensitivity analysis for key budget assumptions.

The MTFP and Budget 2022/23 Report, approved by Council in February 2022 identified £8 million of efficiency savings to deliver a breakeven budget position at year end. The budget gap over the next three years is estimated to be £32.5 million. To ensure Financial Sustainability is maintained going forwards, the Council will need to ensure that the intended actions to close the medium-term financial gap are transparent to decision makers, scrutinised at the top level of the organisation and relevant officers held to account where there is a lack of progress. See recommendation 1.

Revenue monitoring identifies significant pressures for the 2022/23 budget, particularly within Adult's Services due to increased demand for residential and nursing placements, and within Children's Services due to external placements. Rapidly increasing inflation is also having a significant impact upon the Council's budget, a theme common across all public sector organisations.

The 2022/23 period 7 budget monitoring report shows a forecast net £13.1 million overspend on services. This includes £0.5 million shortfall in the identification of corporate savings target and £6.6 million Adults Social Care budget due to increased placement activity.

WCF is forecasting a deficit of £2.947 million. Placement numbers and average costs are the most volatile and high-risk area of the Social Care budget.

We have made an improvement recommendation that the Council should continue to develop and implement mitigating actions to address the significant budget deficit forecast of £13.1 million for 2022/23. See Improvement recommendation 2.





# Financial Sustainability

## Efficiency Savings

We concluded that the Council has not been robust in delivering on its savings plans and have included an improvement recommendation to reflect this. See recommendation 2.

The savings target for 2021/22 was £12.3 million, which was broken down between £7.1 million identified in 2021/22 and £5.2 million brought forward from the previous year as Corporate Savings were not delivered. The reasons included “Recovery from COVID had an impact on the Council’s ability to achieve planned savings”.

The savings delivery target for 2022/23 was approved at £8.1 million in February 2022. This included £1.5 million of undelivered savings brought forward from 2021/22. We also noted that £5.1 million of the total savings plan was not identified until budget month 4 which was reported to Cabinet in July 2022. The report notes a £0.5 million shortfall is forecast to be carried forward to 2023/24.

From our review of Committee papers, we concluded that while budget monitoring reports provided a clear overview of the forecast position, including risks and assumptions supporting those forecasts, timely in-year reporting in respect of performance against delivery of agreed savings plans could be improved. We noted that RAG rated savings plans were only included within the monitoring reports for budget month 4 and month 6 reporting to Cabinet in September 2021 and November 2021 respectively. While an overview of individual performance within each directorate is included, an overview of performance against the savings plan was not provided between November 2021 and March 2022. A summary of the year end position was also not evident within the outturn report to Cabinet in July 2022.

We consider that by improving its procedures that the Council could reduce the level of undelivered savings rolling forward each year and the need to draw from reserves. We note that a further £10.2 million of ear marked reserves has been forecast to be used in 2022/23.

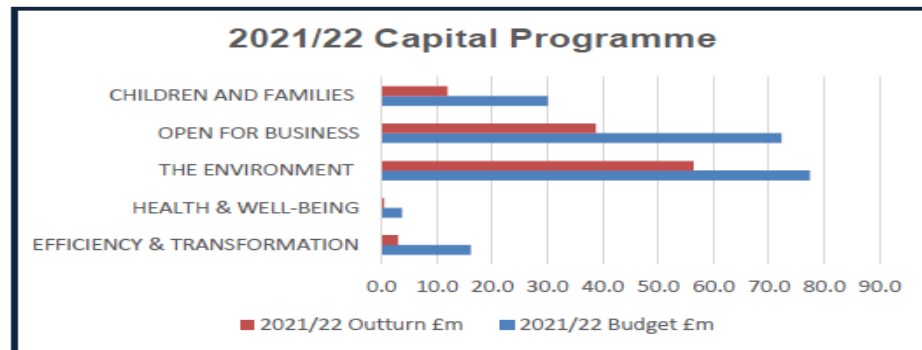


# Financial Sustainability

## Capital strategy and treasury management

In February 2021, the capital programme expenditure for 2021/22 proposed a total value of £76.3 million of works, maintaining a long-term capital programme in the region of £391.6 million. This was revised during the year to reflect changes to the values of capital schemes, due to changes in external income and specific grants expected, and reallocations between schemes to take account of all current information.

The revised capital expenditure budget for 2021/22 was increased to £199 million. Progress was made on a number of significant capital projects during the year. The final year end position was a spend of £110.6 million. This shows slippage of £89 million, which was reported to be largely due to the legacy impacts of COVID, delays in planning approval timescales and delays in grant allocations. Individual projects and their funding will be carried forward to 2022/23 for completion.



It is not unusual to see significant slippage in the capital programme during the year, however we would recommend that the impact of carrying forward these schemes to future years and the ability to deliver is fully assessed. See Improvement Recommendation 4.

In February 2022 the Council approved a capital programme of £146.1 million covering the period 2022/2023 to 2024/25. This maintains a capital programme in the region of £73.4 million for 2022/23. Of that, £52.3 million relates to extended and new commitments. However, we noted that this did not include agreed grant funding as a large number of externally funded grants were yet to be identified, it was reported that the capital programme would evolve during the year. At period 7 we noted that the revised capital expenditure forecast was £181.6 million.

From our benchmarking carried out we noted that Worcestershire County Council has high levels of debt in comparison to other county council peers, ranking 2<sup>nd</sup> for borrowing as a proportion of long term assets as demonstrated by the graph on the following page.

The total debt outstanding decreased from £523.0 million to £486.5 million during the year., from 37% to 33% as a proportion of long term assets. This decrease was primarily of £36.5 million debt repayment. This level of debt is within the Capital Financing Requirement for 2021/22 (£664.1m) and also meets the Prudential Indicators for the authorised limit for external debt (£713.0m) and the operational boundary (£678.0m). All debt is fixed rate and meets the Council's limits on the type of debt it holds (fixed and variable).

No new long-term loans were taken out during 2021/22.

Budget monitoring reports include an overview of the capital programme and progress against spend. Commentary on the assumptions and impact of the programme on borrowing costs is also included as part of the budget and MTFP.

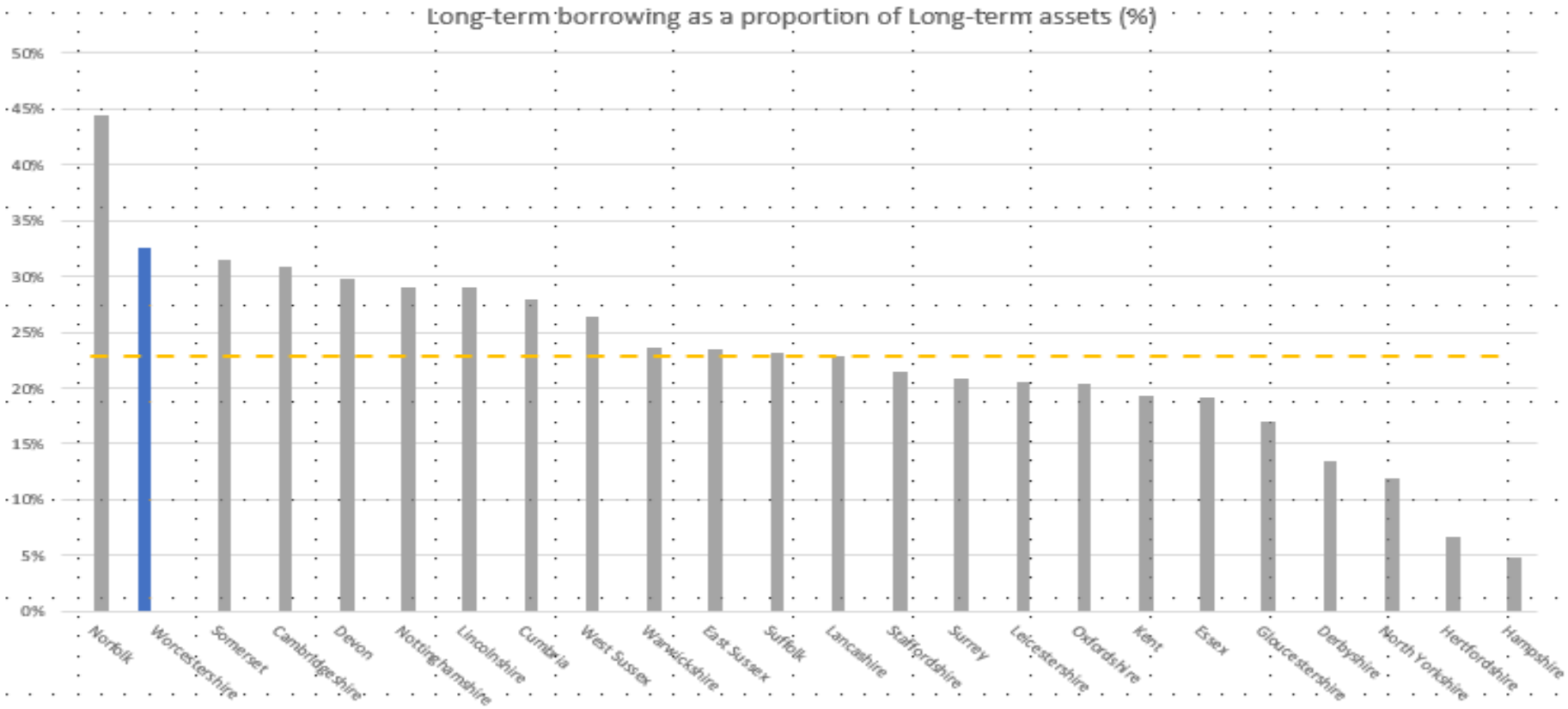
The Council recognises that the affordability of the capital programme is a risk to financial performance and keeps the programme and funding position under review. It is important that the capital financing requirement and corresponding debt levels continue to be managed to ensure they remain affordable, particularly as interest rates are rising.

### Summary

From our work carried out we have concluded that, in general, there are plans in place to address the funding gap for 2022/23 and future years. We have therefore concluded that there is no significant weakness with regards to the Council's arrangements for ensuring its financial stability. We have made some improvement recommendations. These relate to closing the financial gap, delivery of savings and the capital programme.

# Financial Sustainability

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The Average long term borrowing as a proportion of long-term assets is 23%

# Improvement recommendations



## Financial sustainability

### Recommendation 1

The Council should continue to develop and implement mitigating actions to address the budget gaps identified in years 2022/23 to 2024/25.

Actions to close the medium-term financial gap need to be transparent to decision makers, scrutinised at the top level of the organisation and relevant officers held to account where there is a lack of progress.

The Council may benefit from developing a formal action plan to address the medium-term financial gap and including this within the annual budget reporting.

### Why/impact

Reducing spend and protecting reserves is important to ensure that the Council maintains financial sustainability in the longer term.

### Summary findings

The budget gap over the next three years is estimated to be £35.129 million.

The Council currently holds a good level of General Fund and Earmarked reserves which is above the average when compared to other County Councils. This provides a level of assurance that the any funding gaps can be balanced in the short term, however this does not provide for a long term sustainability solution.

### Management Comments

Management agree with the findings and will review the current process to engage with SLT and Cabinet to set out a longer term planning process within the confines of the current one year settlement.



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



# Improvement recommendations



## Financial sustainability

### Recommendation 2

The Council should continue to develop and implement mitigating actions to address the forecast £13.1 million budget overspend for 2022/23.

### Why/impact

Reducing spend and protecting reserves is important to ensure that the Council maintains financial sustainability in the longer term.

### Summary findings

Revenue monitoring identifies significant pressures to the 2022/23 budget, particularly within Adult's Services due to increased demand for residential and nursing placements, and within Children's Services.

The forecast overspend reported at period 7 was £13.1 million.

### Management Comments

The Council has a number of actions including managing pay and non-pay spend, including vacancy management; as well as planned use of reserves. Where these issues are of an ongoing nature, for example overspend in adults and children's social care, these have been addressed as part of the draft budget for 2023/24



# Improvement recommendations



## Financial sustainability

### Recommendation 3

The Council should have a robust financial framework in place to ensure that financial sustainability is achieved in future years. This should include having a savings programme which is deliverable and supported by robust processes for ensuring schemes are identified and agreed on a timely basis.

Robust oversight processes should include timely and transparent reporting to Cabinet and escalation procedures to address non-delivery.

To maximise the success and achievability of delivering planned savings, the Council may benefit from additional scrutiny and input in identifying savings in the initial stages of budget setting.

### Why/impact

Reducing spend and protecting reserves is important to ensure that the Council maintains financial sustainability in the longer term.

### Summary findings

The Council has not been robust in delivering on its savings plans:

- In 2021/22 £5.2 million savings were brought forward the previous year as Corporate Savings not delivered and £1.5 million carried forward from 2021/22 into 2022/23.
- £5.1 million of the 2022/23 savings plan was not identified until budget month 4 which was reported to Cabinet in July 2022.
- In-year reporting in respect of performance against delivery of agreed savings plans could be improved.

### Management Comments

Management welcome the comments and will work with Cabinet around the development of proposals and the engagement of scrutiny. At this stage the uncertainties surrounding Government settlement hamper a true effective longer plan and process, however the CFO will undertake to continually improve the process dependent on lessons learnt from the 2023/24 process.



# Improvement recommendations



## Financial sustainability

### Recommendation 4

The Council should ensure there is a robust financial governance framework around its capital programme, including:

- Ensuring the capital programme includes agreed grant funding.
- The Council should assess the ability to deliver and the impact of carrying forward slippage in the Capital Programme into future years.

### Why/impact

There is an affordability risk due to increasing costs and additional pressures due to capacity.

### Summary findings

The final 2021/22 year end position was a spend of £110.6 million against the Capital Programme. This shows slippage of £89 million, which was reported to be largely due to the legacy impacts of COVID, delays in planning approval timescales and delays in grant allocations.

The capital programme, approved with the MTFP does not include agreed grant funding to provide a full overview of the capital expenditure budget.

### Management Comments

The AGS drew out the need to continually improve this process and as such management have introduced a Capital Board which is reviewing and scoping revised procedures which will address the points flagged by external auditors



# Governance



## We considered how the Council:

- 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 effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Risk Management

High level responsibilities for managing risk are documented within the Authority's Constitution which delegates responsibility to the Audit and Governance Committee (AGC) to "ensure that a corporate risk management strategy is drawn up, and to consider, monitor and review the effectiveness of the Council's risk management arrangements".

In April 2020, the risk management function transferred to the Internal Audit Team and a new Risk and Assurance Manager was appointed. During 2021 and into 2022, developments to arrangements have been made including:

- the establishment of a Corporate Risk Management Group (CRMG), chaired by the Chief Internal Auditor and with representation of a nominated risk champion from each Directorate,
- the implementation of "Pentana" a bespoke system which enables the recording and reporting of risk across the Authority,
- an updated Risk Management Strategy and
- developing E-Learning modules for Risk Management.

Our review has noted a number of areas where improvement can be made to further develop and embed the arrangements in place for managing risk. It is evident that the risk management team has input a considerable amount of time and resource in establishing its Risk Management Framework providing a good foundation to move forward. Our recommendations have been made to assist the Council in making progress.

See improvement recommendation 5.

## Risk Management Strategy

Our review of AGC papers noted that, in March 2021, it was reported that an updated Risk Management Strategy and Policy was being developed. However the Strategy was not presented to CRMG until April 2022. We have therefore concluded that the Authority did not have in place a robust Risk Management Strategy during the 2021/22 period.

We also could not evidence that the Strategy presented to CRMG in April 2022 has been ratified by AGC or approved by Cabinet.

Our review of the Strategy noted that it demonstrates the Council's commitment to Risk Management supported by a statement of risk appetite which is defined as "Open". However, we concluded that the Strategy lacks a number of key elements to provide a consistent and robust approach to managing risk at all levels across the Authority. These include, but are not limited to:

- Defined roles and responsibilities for key stakeholders.
- Risk Management approach and process, encompassing:
  - Risk identification and assessment, including scoring methodology and impact assessment criteria.
  - Managing Risks, including determination of controls and assurances.
  - Risk Monitoring and Oversight, including reporting, escalating and de-escalating risks.

We acknowledge that the April 2022 CRMG briefing note indicated that a revised "toolkit" would be circulated. We confirmed with staff that the Toolkit would include the operational procedures and guidance. However, our review of briefing notes between May to September 2022 indicates that this is still under review.

# Governance

## Risk Management - continued

### Risk Reporting

Risk reporting requirements are not explicitly documented within the Risk Management Strategy. Our review of AGC papers between March 2021 and September 2022 confirmed that progress update reports have been prepared. But the information provided did not provide adequate assurance that risks were being appropriately identified and managed across the Authority, particularly in the first half of the year.

Reporting in September 2021 confirms that the Pentana system had been implemented and was being utilised to assist in oversight and reporting. Notable developments were clear within the progress report to AGC with supporting information which included risk profiles across all directorates, an overview of those risks rated very high or high and a summary of Covid-19 related risks.

Reporting in December 2021 and March 2022 includes directorate risk profiles with a comparison to the previous position to provide an overview of trajectory and travel. However the reports did not include an overview of those risks rated high or very high. There is a lack of detail to provide assurance that risks are being managed. While there is notable improvements within some of the progress reports to AGC, the level of detail and assurance provided has been inconsistent throughout the year. This suggests the arrangements in place are not yet fully embedded.

CRMG is responsible for monitoring very high and high risks and escalates any relevant matters to directorate leadership teams. However, it is not clear if there is upward reporting from CRMG to AGC as this is not demonstrated within the reports.

From our discussion with council officers, we did note that the CRMG meetings were stood down during the Covid-19 pandemic. The CRMG meetings have now been reinstated with effect April 2022. However, our review of CRMG briefing notes between April 2022 and September 2022 noted full representation across all directorates in April 2022. Following this, there were a number of apologies noted and the majority of meetings recorded a “nil response” across most directorates for all meetings. From discussion with staff it was noted that this means there was no advanced items provided by the directorate representative. However, it could suggest there may be a lack of engagement and commitment to the role.

### Risk Register

All risks are recorded on the Pentana risk system. In February 2022 there were 1,322 risks recorded with an additional 79 for WCF. Our review of the register in October 2022 noted this had increased to 1791. The Council should ensure that the number of risks recorded within the register is appropriate, and that risks are identified and evaluated using a consistent methodology with the ability to define those risks which are operational and managed at Directorate level and those that are considered strategic risks to the Council.

We noted a number of areas where the quality of data needs to be reviewed and updated to ensure the information is providing an accurate overview and provides assurance that risks are being accurately scored and managed across the Council. For example:

- The register provided does not provide a RAG rating to provide assurance that risks are on target for being managed within the Council risk appetite and tolerance to risk.
- There are many entries where the target score is the same as the current risk score, and in other cases the target score is showing as higher than the current risk score. This would suggest that either the target score has not been agreed at an appropriate level, or the risk has been fully mitigated in which case would suggest the risk should be closed.
- In the majority of cases we found the “Assigned to” field to be blank, it is therefore not clear that the actions identified to address the risk have been assigned ownership for completion.
- While the register provides a comment, it is not clear where and what controls are in place, the source or type of assurances being received or where there may be gaps which require further action to be taken. Risk Management methodology should identify what controls are in place to mitigate risk, the assurances received or required and any gaps that need addressing.

Using Pentana has provided improved reporting and monitoring functionality, such as the ability to report across themes and departments, identifying and reporting on high risks while providing a view of the risk profile across the whole Council. From review of the heat maps to the risks downloaded from Pentana, it is not clear how the heat map information reflects the risks recorded in Pentana. From discussion with staff we did note that risk profiles have been reported as an average across each Directorate. There is a risk of false assurances being provided, particularly where a Directorate has been rated as low overall but may include a low number of very high risks.



# Governance

## Internal Audit & Counter Fraud

From discussion with the Audit Manager, Interim Head of Internal Audit (HOIA), s151 Officer and Chair of the Audit Committee, all are satisfied there is an effective Internal Audit Service in place.

The 2021/22 Internal Audit Plan was presented to AGC in March 2021. The plan confirms it is risk based and meets with Public Sector Internal Audit Standards (PSIAS) as set out in the Charter.

Individual reviews have not been allocated a specific days allocation, however the areas of focus are listed and the plan confirms a level of contingency and flexibility to meet the Council's needs. The plan and encompasses Counter Fraud and confirms coverage for WCF. Our review confirmed there is a robust Internal Audit Plan in place with good coverage of the core and risk areas to comply with PSIAS and provide an end of Year HOIA opinion.

Progress against the plan is reported to each meeting of the AGC. The update is supported with detail of the current status of each review and any changes to the plan. However the changes, particularly where reviews are removed from the plan, are not supported by a documented reason for the change, or confirmation of approval from the lead audit sponsor / executive lead. The progress reports also provides information in respect of the implementation of agreed Internal Audit actions. Our review confirmed that the Council are generally robust in implementing actions, are not an outlier in its % compliance and do not have a high number of actions reaching six months overdue.

The HOIA Annual report was presented to AGC in July 2022 and provided a "Moderate" Assurance opinion "A moderate rating means that the control framework is adequate and controls to mitigate key risks are operating effectively, although improvements are needed."

Progress reports of Fraud Activity are provided to the AGC as part of the Internal Audit reports.

We noted that the Council has a number of policies in place to manage and mitigate the risk of fraud and fraud risk has been identified and is included within the risk register within some directorates for example procurement fraud risk and increased risk of fraudulent activity within Trading Standards.



# Governance

## Budget Setting

Annual budget setting arrangements are well developed. There are a number of processes undertaken to prepare, agree and scrutinise proposals which, following discussion with key officers are well embedded and understood by those charged with responsibility for setting and approving the budget.

Under the Council's Constitution the responsibility for approving the budget sits with full Council. It includes a Budget and Policy Framework Rules which provides an overview of the approval and consultation process, highlighting that this will be published as part of the "Forward Plan" but does not document these timescales within the policy. See improvement recommendation 6.

The process is based on an incremental budgeting approach that starts with the base budget, predicts known changes, such as inflation, pay awards and considers any new pressures arising from demand or changes in the mechanisms of funding. The process starts in early autumn, with refreshes of the MTFP with department accountants all feeding into the process. Gaps are then identified, and savings plans are evaluated.

Members are involved early in the process with away days and discussions held with officers before the budget is prepared and shared with Cabinet. The first paper is presented to the December cabinet with an update in January and then February before going forward to full Council for approval.

The approach to preparing the budget is in accordance with the Budget and Policy Framework Rules and this reflects the County Council's Corporate Plan 'shaping Worcestershire's Future' and the MTFP. While there is no specific public consultation on the budget, Worcestershire have a viewpoint citizen's panel, which tracks annually the thoughts of residents, this includes questions on priorities and where money should be spent, and these are fed into the MTFP and results are referenced in the budget report to add a public view focus.

Our review of papers and discussion with key officers confirmed this process was in place, with the Budget and MTFP approved by Full Council in February 2021.

As part of the process of setting the budget, savings are split between those where officers have authority to take actions within the existing Council Policy Framework and those where decisions require a change in policy and approval by elected members. Where Cabinet took decisions in 2021/22 or are in the process of consultation then any related savings have been assumed within the base already and the updates will be through separate Cabinet papers. The efficiency proposals for 2022/23 are broken down by directorate within the MTFP.

The draft budget report to Cabinet in Feb 2021, provides the process for Engagement on Proposals, which includes "The proposals have been subject to review and scrutiny by a range of stakeholders, including elected members through the scrutiny process, Trade Unions through meetings with them; and Schools Forum consideration of the Dedicated Schools Grant changes.

The report also provides evidence that there are processes in place for internal and external engagement on proposals, which includes scrutiny by a range of stakeholders, including elected members through the scrutiny process, Trade Unions through meetings with them; and Schools Forum consideration of the Dedicated Schools Grant changes.

Our review of scrutiny committee papers confirmed the engagement arrangements in place, with comprehensive comments and input from overview and scrutiny panel.

## Budget Monitoring

The budget monitoring and reporting process in place is well embedded with detailed budget reports provided to the senior leadership team on a monthly basis. These include an explanation of significant variances and assumptions used, a forecast outturn position, risks to the budget and actions for each chief officer to take.

Public reporting on the budget is provided via the Cabinet. Our review of Cabinet papers confirmed there is clear and transparent reporting in place confirming the Council's current position and forecast year end position. This is further broken down for each directorate to provide an overview of performance and cost pressures council wide.

# Governance

## Informed decision making and compliance with regulatory standards

The Council has in place a Leader / Cabinet model of Governance. The Constitution includes the principles of decision making and the rules, codes and protocols that govern how the Council operates, including Financial Regulations and the Scheme of Delegation.

The Constitution sets out the functions of the statutory posts of Head of Paid Service, Monitoring Officer and the Section 151 Officer, including providing advice to Members on staff management, financial, legal and ethical governance issues.

Processes are in place to ensure Cabinet and Executive decisions are appropriate and comply with relevant legal, statutory, regulatory and budgetary requirements. The Council's triumvirate which is made up of Legal, Democratic and Section 151 Officer representation review all reports prior to formal reporting through the Governance Structure, to ensure appropriate requirements are complied with.

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 which are contained within the constitution. This is publicly available on the Council website. All Members are required to declare any interests which are recorded along with a register of any gifts and hospitality which are reviewed regularly. We noted that the Council are making developments to move away from manual declarations of interests and these will move to online declarations.

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 confirmed through conversations with key officers and review of key documentation that there are arrangements in place to ensure that relevant information is provided to decision makers on a timely basis before decisions are made and Scrutiny Committees provide for challenge on decisions, policies and performance during the year.

Member budget briefings are also held to provide assurance on the budget and ensure sufficient information is provided to enable an informed decision to be made.

We reviewed the Constitution and noted that it is dated January 2020 and therefore may not fully and accurately reflect the roles and responsibilities of the Council, particularly where changes have been made. From our discussion with key officers we noted that the role titles for Strategic Directors and Assistant Director posts were updated after changes were made to job titles before Covid, however there now needs to be a further review to ensure that the functions delegated are still relevant and appropriate to each directorate. For example the property function has been brought back in house following the closure of Place Partnership and therefore the delegation for that function may need updating.

Any significant governance considerations are reported as part of the Annual Governance Statement (AGS). Our review of the AGS confirmed there were four areas of focus identified in 2020/21 and two new areas in 2021/22, this includes "Non-compliance with Corporate Policies and Procedures across all disciplines". We note that the Council plans to undertake an assurance gap analysis of decision making, including boards and roles of directors to help drive a constitutional refresh to support and strengthen effective business decision making. This will include schemes of delegation and contract procedure rules.

The following action has been reported to be undertaken: "Review of the Council's Constitution and supporting policies and procedures will be performed to ensure that responsibility and accountability is defined and the consequences for non-compliance across Officers and Members are clearly

## Summary

We did not identify any risks of significant weakness in relation to Governance. We have not made any key recommendations, but have included recommendations for improvement, include enhancing and embedding the Risk Management Framework and ensuring the Constitution is reviewed and updated.



# Improvement recommendations



## Governance

### Recommendation 5

The Council should enhance and further embed the risk management framework in place, by ensuring:

- The Risk Management Strategy is approved and endorsed.
- The Strategy sets out clearly defined roles and responsibilities for all key stakeholders.
- The supporting Risk Management Toolkit is promptly developed to ensure there is a council wide robust and consistent approach to managing risk. The Toolkit should include as a minimum, the approach and process for:
  - Risk identification and assessment, including scoring methodology and impact assessment criteria.
  - Managing Risks, including determination of controls and assurances.
  - Risk Monitoring and Oversight, including reporting, escalating and de-escalating risks.
- Risk reporting arrangements including the reporting template and the information required for oversight should be agreed and clearly defined as part of the Risk Management Toolkit. This should include frequency and responsibilities for reporting.
- The Council should review its current framework and arrangements for managing risk to ensure they are effective, working as expected and that those charged with responsibilities for managing risk at a department level are appropriately committed to the role.
- The number of risks recorded within the register is appropriate. To ensure this is appropriately managed, risks should be identified and evaluated using a consistent methodology with the ability to define those risks which are operational and managed at Directorate level and those that are considered strategic risks to the Council.
- The functionality of the Pentana System is investigated to identify any opportunities for improving reporting and monitoring processes. This should include improving the quality of data within the risk register information.
- Risk reporting clearly highlights those risks rated Very High or High and risks are not averaged across service lines.

### Why/impact

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.

### Summary findings

Our review identified areas where there is an opportunity to improve the risk management arrangements in place. Our findings and recommendation have been made to further enhance and strengthen the processes.

### Management Comments

The Council's Risk Strategy will be updated during 2023, and SLT are continually reviewing to improve its processes.

# Improvement recommendations



## Governance

### Recommendation 6

The Council should review and update the Constitution. This should include:

- Ensuring the Constitution accurately reflects the roles and delegated responsibilities of the Council, particularly where changes to job titles and Council functions have been made.
- Documenting the timescales for preparing and approving the budget aligned to the nationally agreed framework.
- Including

### Why/impact

The Constitution sets out how the County Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. The Constitution should therefore be reviewed and updated on a regular basis to ensure it reflects the current and national position, up to date mandatory and statutory guidance and continues to promote the principles of good governance.

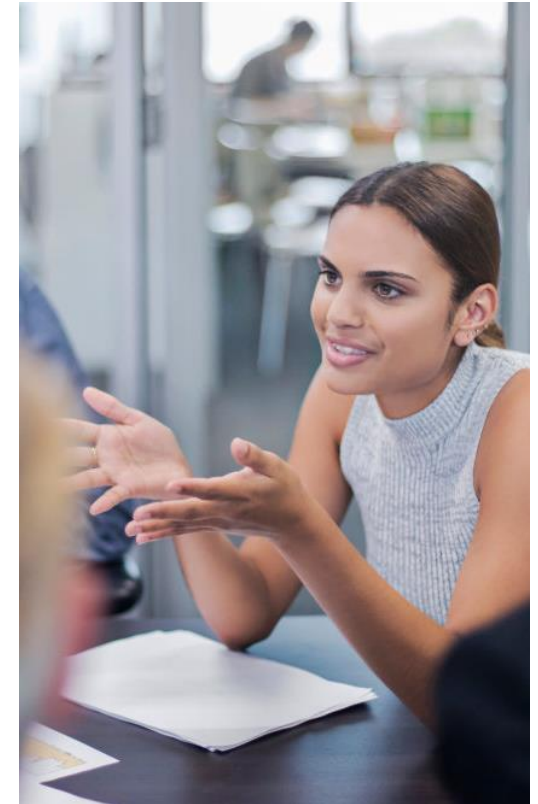
### Summary findings

The Authority's Constitution is dated January 2020 and requires updating. It may not fully reflect the roles and delegated responsibilities of the Council particularly where changes have been made.

The Council's Constitution includes that the responsibility for approving the budget sits with full Council. It includes a Budget and Policy Framework Rules which provides an overview of the approval and consultation process, highlighting that this will be published as part of the "Forward Plan" but does not document these timescales within the policy.

### Management Comments

This is part of the AGS action plans and will be a key task for the new Monitoring Officer.



# Improving economy, efficiency and effectiveness



## We considered how the Council:

- 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Performance management

The Corporate Plan 2017 to 2022 articulates the Council's four priorities for the five year period:

- health and well being,
- open for business,
- children and families and
- environment.

The plan looked to change the role of the Council to one which was 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. The process for performance reporting is quarterly via overview and scrutiny boards, which are then reported through the overview and scrutiny performance board and twice yearly via performance scorecard which are published within the public domain on the councils website.

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. KPIs are also not reported to Cabinet.

We have therefore concluded that for 2021/22 the Council has not demonstrated it has achieved the objectives set out as part of its Corporate Plan priorities.

See improvement recommendation 7.

During this period the Council took the decision to de-commission the system used for performance recording and reporting which was not equipped to comply with public facing reporting and refresh the Performance Framework in place. The Pentana system is now being used for this purpose with reporting being developed through the "Power BI" mode.

Following the outcome of the elections in May 2021, the Council have been working on the new Corporate Plan. The 2022-2027 Plan has now been launched. The Plan is built on the same priorities, harnessing 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.

The Council has been developing a new hierarchy of performance indicators to align to the success measures within the refreshed Corporate Plan. These have been designed to give greater insight of the activities supporting the indicators and the ability to hold to account at all levels of seniority.

Performance reporting has now been developed and approved internally and this is ready to go live pending approval for public facing reporting.

Reporting has been designed to provide a RAG rating attached to each of the Pillars (priorities) within the Plan, therefore where an individual activity is RED, this prompts the entire pillar to be rated RED. This is intended to provide greater oversight and strengthen accountability.

From review of the developing framework, it was noted that the Corporate activity to have performance reporting in place was RAG-rated RED. We acknowledge that while the development of the arrangements is making progress these have still yet to be launched.

# Improving economy, efficiency and effectiveness

## Performance Reporting & Benchmarking

Although corporate performance management processes were put on hold, there has remained oversight of directorate performance through the overview and scrutiny boards. There are six scrutiny boards in place and from our review of the dashboard information, we confirmed these provide a comprehensive overview of services performance including performance against the budget. They allow for robust challenge and discussion, and in turn identify any cost pressures or potential quality or effectiveness risks. We reviewed a sample of the reports and noted the following:

Reporting for WCF is provided through the Children and Families Overview and Scrutiny Committee. We reviewed the 2021/22 year end performance data and noted that the timeliness of action taken is good. For example, the number of contacts and referrals had increased by approx. 4400. The timeliness of decision making in 24 hours had been maintained at 80% compared to 78% through 20/21 and 72% through 19/20. There is a recognition that conversion rates from “contact” to “referral” - SWA (social work assessment) are a concern and work is being carried out with partners to understand the accessibility and effectiveness of other supporting services.

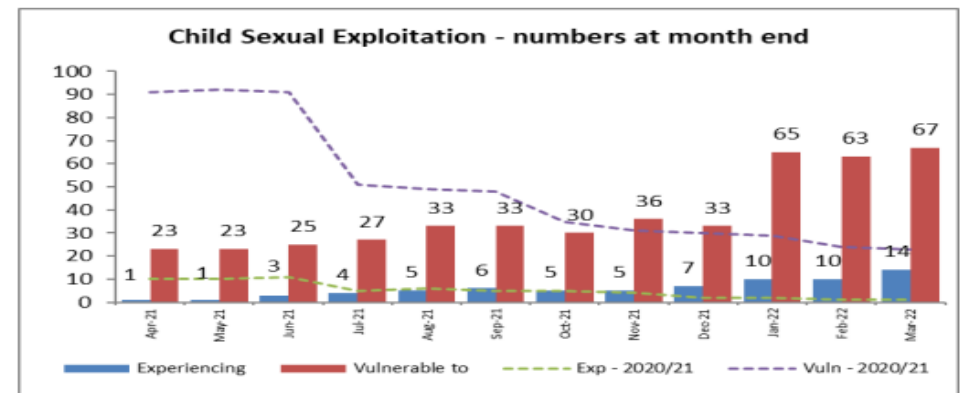
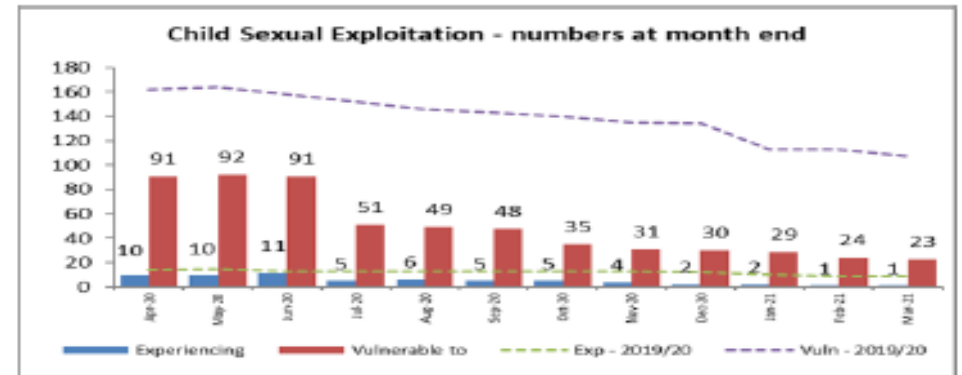
Our review of KPI information showed that for one indicator, there was a significant increase for the period January to March 2022, when comparing the month on month figures in 2019/20 to 2021/22. The indicator reports the number of children vulnerable to child sexual exploitation. While we recognise the initial trend in reducing numbers aligns with the national lockdown period, the narrative in the overview report doesn’t provide specific reasons for the increase or confirm that further investigation had taken place to provide further clarity.

See improvement recommendation 8.

‘GET SAFE’ is the Worcestershire Safeguarding Children Partnership’s title for the identification and management of multi-agency support and protection for children and young people at risk. The purpose of the Partnership Group is to develop and co-ordinate the strategic and tactical action plan to support and protect children and young people at risk of or who are experiencing exploitation.

As a result of the partnership working, there has been an increase year on year of young people being identified as in need of support to reduce their vulnerability to exploitation. This is positive as it means that young people are supported at the earliest opportunity and support and intervention can be offered by any partner or commissioned service ensuring that the child and their family get the right help and support.

The Partnership provides annual and quarterly reports to the Committee detailing the activities undertaken and focus of future activity. Our review of the reports confirmed that in the reporting period October 2021 to September 2022 the partnership approach to prevention, protection, and pursuit of exploitation was a key priority. This was supported by Operation Bordeaux in Quarter 4 of 2021/22. We consider this focus to align with the outcomes and increase in the indicator information:



# Improving economy, efficiency and effectiveness

## 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.

We have previously reported that, overall, Worcestershire is a low spending county per head of population when compared to other county councils. This was based on the most recent data of actual spend, which is 2019/20 Revenue Outturn (RO) submissions to the government.

We have completed further benchmarking using our management tool 'CFO Insights', which compares the unit costs for a range of services and identifies areas where the unit costs were very high or very low in comparison to other county councils.

Our analysis is based on the latest available data, which is the approved budgeted spend (RA data for 2022/23) per "Service Line". We have then associated a unit to the service line to calculate a unit cost, for example for Children's Social Care this is based on population aged 0-17, or for Adult Social Care this is population aged 18+. The unit score analysis then benchmarks against the comparator group eg other County Councils. A "Very High" score would place the Council in the top 20%, with "Very Low" placing in the bottom 20%.

The table opposite provides an overview of a sample of those Directorates where the unit cost is assessed as very high compared to those where the unit cost is low. (Source: RA Returns 2022/23).

The table on the following page of this report provides an overview of the Council's cost per unit of Directorates when compared to its nearest nine County Council's.

Service	Total Budget Cost 22/23 £000	Units	Unit Costs £	Unit Cost Score
TOTAL CULTURAL AND RELATED SERVICES (RA) £/head	11,221.00	598,070.00	18.76	Very High
TOTAL CENTRAL SERVICES (RA) £/head	18,691.00	598,070.00	31.25	Very High
TOTAL PUBLIC HEALTH (RA) £/head	52,706.00	598,070.00	88.13	Very High
TOTAL CHILDRENS SOCIAL CARE (RA) £/aged 0-17	104,038.00	119,353.00	871.68	High
TOTAL EDUCATION SERVICES (RA) £/aged 0-18	262,419.00	125,503.00	2,090.94	Low
TOTAL ADULT SOCIAL CARE (RA) £/aged 18+	199,120.00	478,717.00	415.95	Low
TOTAL SERVICE EXPENDITURE (RA) £/head	716,290.00	598,070.00	1,197.67	Low

Comparator County Council group data:

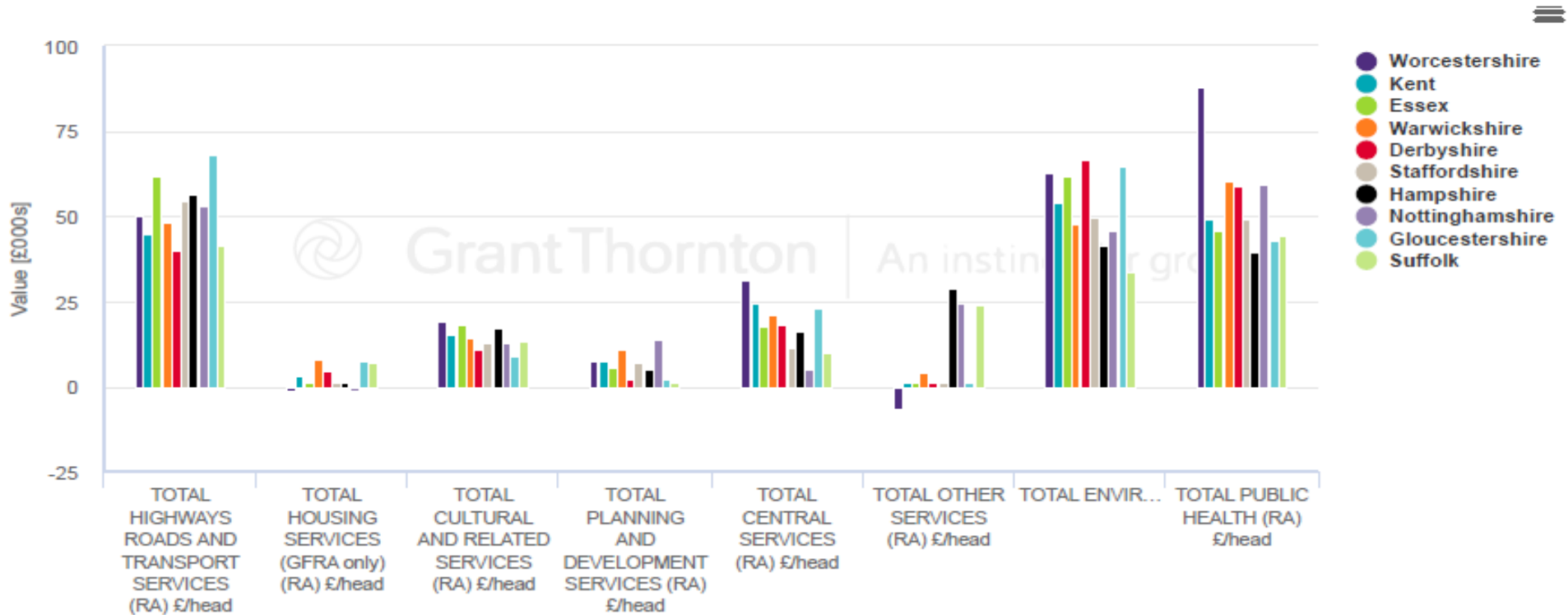
- Kent
- Essex
- Warwickshire
- Derbyshire
- Staffordshire
- Hampshire
- Nottinghamshire
- Gloucestershire
- Suffolk

# Improving economy, efficiency and effectiveness

## Benchmarking

Unit Costs Analysis chart - showcasing budgeted spend within each service area, compared against its Nearest Neighbours

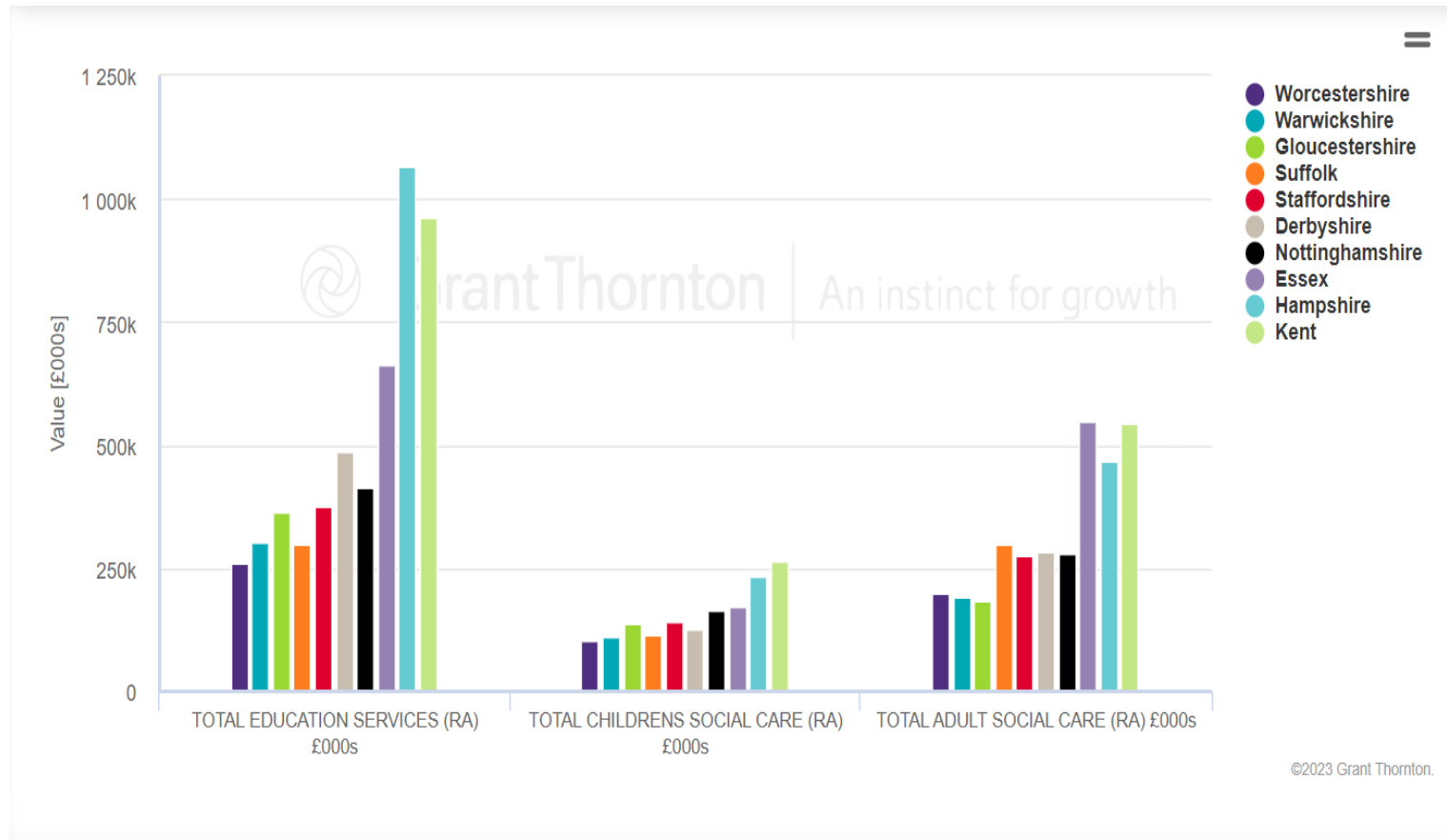
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# Improving economy, efficiency and effectiveness

## Benchmarking continued

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# Improving economy, efficiency and effectiveness

## Benchmarking

Where we have identified potential outliers when compared with others, officers have a clear understanding on why the data suggests either high or low spend when compared to others.

The costs for culture, in particular the libraries service, are very high when compared with others. However this is not unexpected, the key driver for this is the private finance initiative (PFI) scheme of The Hive. In January 2010 the County Council entered into a PFI contract for the construction and provision of a new Worcester Library and History Centre (The Hive). The Hive became operational in January 2012 and opened to the public in the summer of 2012. The Hive is a partnership initiative between the County Council and the University of Worcester for the provision of a fully-integrated public and University library, plus the Worcestershire Record Office, Worcestershire Historic Environment and Archaeology Service and Worcestershire Hub Customer Service Centre. However, the Hive does not replace the existing community libraries which remain operational.

Spend on public and sexual health is high when compared to others. The Council have targeted certain preventative measures, and have used the public health grant to fund these initiatives. The information provided on the following page provides an overview of spend and may be useful to carry out any further targeted investigation.

The 2021/22 year end outturn provided a breakeven budget position overall. The unit cost of adult social care per person over the age of 18 is assessed as low when compared to neighbours.

Reports to Adult Care and Wellbeing Scrutiny Panel noted that over the period 2019-21, the rate of admissions to permanent care fell overall. The March 2021 figure was particularly low due to the pandemic. Admission rates have risen in the year and at the end March 2022 returning to near pre-pandemic levels.

The Council have established an action plan to focus on demand and spend. High cost packages, authorisation and actions post review are being scrutinised as part of this. Ongoing work with Commissioners looking at extra care provision, Continuing Health care decisions continues as does the scrutiny of all new placement.

We also noted that reporting in July 2021 for Adult Social Care the Percentage of people in services for twelve months who had a review completed in those twelve months or whose review is in progress at that point has been reported as RED and below target for more than 2 years. The narrative in the report provides assurance that there is some improvement and action is now being taken to address this by commissioning an external provider.

Children's Social Care costs are High when compared to nearest neighbours. This includes the unit cost of Children Looked After which is assessed as Very High. Performance reporting to scrutiny includes narrative to support this as looked after children total numbers have risen throughout the 2021/22, with the Council remaining above statistical neighbours and England averages.

In comparison, Education costs are assessed as Low, with primary, secondary and special schools provision being Very Low. We noted that Ofsted Performance has remained relatively stable over the last few years, with the % rated Good or Outstanding being 82%, however we noted this was just below the England average of 86%.

Costs for highways and transport services has been reported as low in recent years. The Council's commitment to invest in this area aligns with the benchmark data which has seen the cost per unit increase to "Average" overall for budget spend in 2022/23:

Service	Total Budget Cost 22/23 £000	Units	Unit Costs £	Unit Cost Score
TOTAL HIGHWAYS AND TRANSPORT SERVICES (RA) £/head	29,840.00	598,070,00	49.89	Average

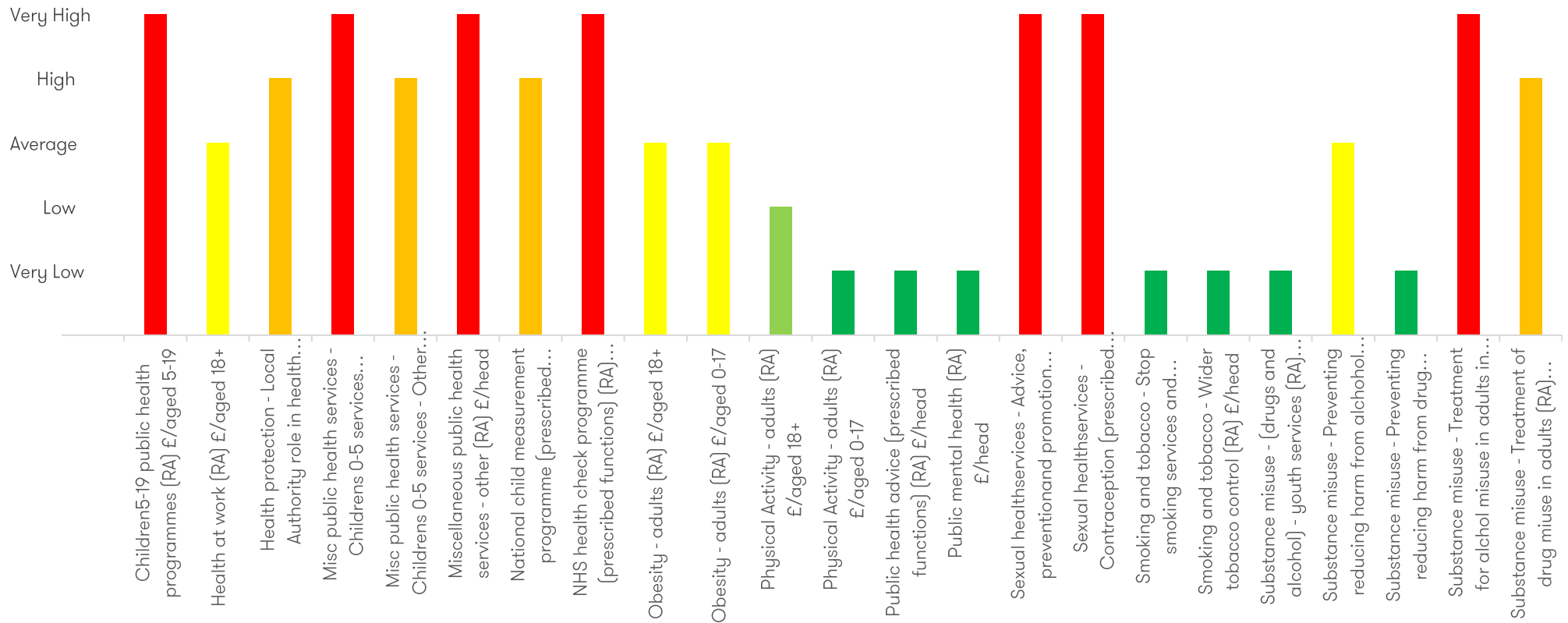




# Improving economy, efficiency and effectiveness

Public Health Services Unit Costs Benchmarking

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# Improving economy, efficiency and effectiveness

## Service User Feedback

The Council is pro-active in seeking feedback from key stakeholders including its staff and service users. This is carried out in a variety of ways including through its consultation processes when changes are proposed to services, part of the public view point questionnaire or to gauge satisfaction feedback in respect of individual service areas. Examples during 2021 include but are not limited to:

### 2021 View point:

In 2021, 4,295 view point questionnaire completion requests were mailed out to panel members, 89% of these via email and 11% by post. 2,048 responses were received which is equivalent to 48%.

Satisfaction with the local area is a key indicator about public service delivery. 81% of Worcestershire residents said they were satisfied with their local area as a place to live. However, this is a decrease from the 86% satisfied in 2020 and 2019 when 82% were satisfied. Likewise 54% of residents are satisfied with the way the County Council runs things. This is a significant decrease from the 62% satisfied in 2020.

When asked for the top five things that most need improving in the local area, road issues including traffic congestion and road/pavement repairs were consistently top.

### IT and Digital User Satisfaction Survey

Analysis of the survey indicated overall good levels of satisfaction with the IT service. The outcome of the report has enabled the Council to identify areas where further improvement can be focussed, including:

- Better engagement with professional and front-line staff to enable them to appropriately influence ICT developments.
- Better strategic engagement with the People Directorate and WCF.
- Improving the ease of contacting ICT support staff.
- Improving speed of response to requests for assistance.

The outcomes of this data have been summarised and benchmarked against other County Council's where possible to inform decision making for as part of its budget setting spending and investment decisions. This is evidence through the Council's continued investment through its Highways and Transport budget.

## Comments and Complaints

The Council's comments and complaints process also allows for any learning to be developed and embedded into operational processes for example for Adults Social Care, Comments and Complaints are reported to the Adult Care and Well Being Overview and Scrutiny Board. The outcome of and numbers received are also included as part of the Directorate Annual Report which is published on the Council's public facing website.

From our review of the 2021/22 Annual Report, we noted that while the number of complaints received in 2021/22 had increased when compared to the previous year, there were none that were categorised as high risk. The report provides a clear overview of the service area for complaint and provides examples of some of the actions that have been taken to address the issues, for example re-iterating and reminding front line staff of processes in place.

Level	2020-21	2021-22
Low Risk	95	190
Moderate /High Risk	28	43
Informal	22	14
LGO	7	13
<b>Total</b>	<b>152</b>	<b>260</b>

Our review of the minutes from the Adult Care and Well Being Overview and Scrutiny Board confirmed robust discussion, challenge and scrutiny has taken place.

### Worcestershire Children First

The WCF Quality Assurance Board sets an annual programme of deep dive reviews across front-line Social Care and Education services. This includes seeking the views and opinions of children and young people on the impact of interventions and how the WCF continuously learn and improve to be better. Reports are presented to WCF board.

Outcomes are reported as part of the WCF annual report.

In 2021 the annual Voice of the Workforce (VOW) survey was introduced; a system health check and a barometer of our services that enables staff to share their views and feedback on the strengths and areas for development to support continuous improvement. The survey was completed by 61% of the workforce and its findings support the key priorities of our quarterly Workforce Board. The key issue raised related to workload where on 65% said this was manageable.

# Improving economy, efficiency and effectiveness

## Significant Partnerships

2021/22 was the second full year of operation of Worcestershire Children First (WCF). WCF is a wholly owned company of the council which was created to deliver children’s services 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 it’s 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 with reporting through the Children and Families Overview and Scrutiny Committee.

The Council continues to recognise the importance of Children’s services, and following submission of a detailed business plan from WCF which sets out the continuation of the Council’s improvement journey to good, and the financial plan around key areas such as safeguarding, schools and early years, has approved a further investment of £7.9m as part of the budget for 2022/23. Further funding has also been set aside for potential pressures on the placements budget

### OUR VISION

Worcestershire to be a wonderful place for all children and young people to grow up.

### OUR MISSION

Supporting children and young people to be happy, healthy and safe.

**WORCESTERSHIRE CHILDREN FIRST**

## OUR VALUES



# Improving economy, efficiency and effectiveness

## Procurement of Services

Worcestershire County Council currently spends £633M per annum with external organisations for goods, services and works to support the delivery of the Council's priorities. High level responsibilities for procurement are documented within the Constitution which states "The procurement of works, goods, materials and services shall be made in accordance with the Procurement Strategy, the Council's Contract Standing Orders and the Procurement Code".

The Council has in place a Corporate Procurement Strategy 2022 – 2025 which provides an overview of the Council's vision to be a "procurement partner of choice" and defines how it intends to meet the priorities of the Council, as well as how the national procurement strategy for Local Government aims and objectives are reflected in its approach. The strategy gives an overview of its three key themes which have been identified to provide the basis of the Procurement Outcomes Framework.

From our review of Committee papers, we did not see evidence of reporting against KPI metric's to provide assurance of its achievement of agreed procurement outcomes or to demonstrate a efficient and effective service and compliance with procurement rules. However, we were informed that there are 65 KPIs adopted from the local government association, which current performance has been assessed against and subsequently a plan has been developed for improvement where needed.

We were also informed that there are 15 specific KPIs which have been agreed for monitoring performance at a service level (savings, supplier reviews, category strategies etc), and these will be implemented from 1st April 2023.

We reviewed the Council's Financial Regulations and Contract Standing Orders (CSOs) and found that it is not clear what thresholds have been agreed for contracting or what levels of approval have been set. The CSOs are also vague stating "Standing Orders give Chief Officers freedom to enter contracts in such manner as seems to the Chief Officer to be appropriate and subject to the provisions of Financial Regulation 36, each Chief Officer shall establish, in writing, detailed arrangements for the handling of such contracts." Without detailed guidelines for procuring and contracting, there is a risk of an inconsistent approach that may result in inappropriate use of waivers and not achieving best value and could increase the risk of loss through error or fraud.

We noted that the Council does maintain a register of "Exceptions". This outlines where contracts have been awarded outside of the tendering rules ie using a waiver, or where contracts have been extended beyond their agreed limit. However, we did not see evidence of oversight through reporting to Audit and Governance Committee to provide assurance of compliance with CSOs.

We were informed that it has been agreed and approved at COG in December 2022 that the Commercial Board will be re-established. For 2022/23 the Council has developed an MS form for capturing both exemptions (approved and necessary) and non-compliance and both will be reported to the commercial board.

See Improvement recommendation 9.

An 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.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 7

Performance reporting against Corporate Plan priorities to be launched as soon as possible. This should be supported by public facing reporting to provide assurance and transparency of how well the Council is operating.

## Why/impact

To provide assurance internally and externally of how the Council is progressing in meeting its priorities for the County.

## Summary findings

The Corporate activity to have performance reporting in place was RAG rated RED. We acknowledge that while the development of the arrangements is making progress these have still yet to be launched.

## Management Comments

Agreed, the Strategic Director for CoaCh will lead this implementation



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

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 8

Performance reporting should provide detailed narrative of action being taken where spikes or dips are evident.

## Why/impact

Without detailed narrative explain any changes in information or performance, the council may not be assured that appropriate investigation has been carried out and that mitigating action is being taken.

## Summary findings

Our review of papers noted that the dashboard for one indicator shows a significant increase when comparing the month on month figures in 2019/20 to 2021/22. The indicator reports the number of children vulnerable to child sexual exploitation. While we recognise the initial trend in reducing numbers aligns with the national lockdown period, the narrative in the report doesn't provide specific reasons for the sharp increase in numbers between January and March 2022, or confirm that further investigation had taken place to provide further clarity.

## Management Comments

Agreed, the Strategic Director for CoaCh will lead this implementation





# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 9

The Councils Financial Regulations and Contract Standing Orders (CSOs) should clearly articulate the roles and responsibilities for procuring, awarding and approving contracts. This should include threshold boundaries and a transparent process for waiving these rules.

The Council should also have in place appropriate oversight and reporting processes to provide assurance of its achievement of agreed procurement outcomes or to demonstrate a efficient and effective service and compliance with procurement rules.

## Why/impact

Without detailed guidelines for procuring and contracting, there is a risk of an inconsistent approach that may lead to inappropriate use of waivers, not achieve best value and could increase the risk of loss through error or fraud.

## Summary findings

The Council does not currently have in place KPI metric's to provide assurance of its achievement of agreed procurement outcomes or to demonstrate a efficient and effective service and compliance with procurement rules.

Review of the Councils Financial Regulations and Contract Standing Orders (CSOs), noted that it is not clear what thresholds have been agreed for contracting or what levels of approval have been set.

## Management Comments

Agreed, the CFO will lead this implementation in tandem with the review of the Constitution with the Monitoring Officer in line with the planned AGS work.



# Council Financial statements audit

## Council Audit

We commenced our post-statements audit in July 2022 and issued an unmodified audit opinion in February 2023. The financial statements and working papers presented to us for audit were of a good quality.

The Council chose to make a non-material adjustment to the financial statements in relation to grants received in advance which had incorrectly been included in creditors in the draft accounts. As a result, £8.2m was moved into grants received in advance from creditors. This did not affect useable reserves. We found a similar non-material error (£6.1m) had occurred in 2020/21. Whilst reviewing the above matters, a related error was identified where material grant income (£23.2m) which should have been charged to income in 2020/21 (as there were no unfulfilled conditions on the grant income) was instead treated as a creditor. As this error affected the amount of income charged in the year, this increased useable reserves. As the combined error was material in the prior year, a prior year adjustment for both 2020/21 errors was necessary.

A prior year adjustment was also required for 2020/21 as we noted that both debtors and creditors (£20.6m) were both overstated. This was not a 2020/21 creditor as the £20.6m payment to Worcestershire Childrens First related to the 2021/22 financial year. Also it was not a payment in advance (debtor) as the actual payment was not been made in 2020/21 as it had been intended. This had no impact on useable reserves.

Finally an adjustment was made to reduce your net pensions liability by £6.3m as your share of the Pension Fund's assets had grown from that estimated earlier in the year.

There were three unadjusted errors, all of which were estimated or extrapolated. The largest of these was the assumed increase (£11.336m) in value of PPE assets not revalued in 2021/22. Other unadjusted errors related to the extrapolated overstatement in value of creditors and accruals (£2.095m) based on errors we found in our testing sample and an extrapolated understatement (£1,054,000) of the pensions liability based on our sample testing of your share of pension fund derivatives assets. Please see Appendix C for more detail.

The Code requires infrastructure assets to be valued at depreciated historical cost. It also requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component is derecognised to avoid double counting. Most local authorities have been unable to comply with the requirement to assess the net book value of the replaced component and will therefore have treated the amount of the replaced component as zero. This is because the replaced component is considered to have been fully used up at the point that it is replaced. However, there is often a lack of evidence to support this assumption and some subsequent expenditure, is often in addition to the previous asset rather than being a direct replacement. There was a significant risk that local authority financial statements could be subject to qualified audit opinions in this area if no action is taken. The Department for Levelling Up, Housing and Communities (DLUCH) therefore prepared a temporary statutory override with regards to infrastructure assets, whilst a permanent solution was developed by CIPFA. This statutory override was effective from 25 December 2022. In parallel to this, CIPFA revised the Code so that it reflects this temporary statutory override. We have now assessed that there could not be a material risk of misstatement for the Council.

We have also raised a number of recommendations for management as a result of our audit work. These are included in the Audit Findings Report.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported in the main by good working papers. We received prompt responses to our transactional based queries, with inevitably our more challenging judgemental queries on PPE and grants taking a bit longer. This reflects the continuous raising of the bar and auditors providing greater challenge to the Council each year especially in the areas subject to greatest estimation and uncertainty.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

# Pension Fund Arrangements

## 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.

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# Follow-up of previous recommendations

	<b>Recommendation</b>	<b>Type of recommendation</b>	<b>Date raised</b>	<b>Progress to date</b>	<b>Addressed?</b>	<b>Further action?</b>
1	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.	Improvement	June 2021	The Council's MRP provisions have been reviewed to ensure they are in line with statutory guidance and regulations.	Yes	No
2	All remaining actions arising from the task and finish group on risk management should be implemented, including a review of effectiveness.	Improvement	June 2021	We were informed that all of the actions identified by the Task and Finish Group have now been implemented. Our report does include a number of improvements actions to further improve the arrangements for managing risk going forward.	Yes	Yes
3	Formal arrangements to monitor progress against the new Corporate Plan should be put in place, following their suspension due to Covid-19 related activities.	Improvement	June 2021	The Council's Corporate Plan has now been refreshed and launched. Formal arrangements to monitor progress against the plan are still in progress.	No	Yes

# Opinion on the financial statements



## Audit opinion on the financial statements

We have substantially completed our audit of the Council's financial statements including pension fund financial statements. The only issue outstanding relates to the valuation of infrastructure which is a national issue.

## Other opinion findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

## Audit Findings Report

More detailed findings can be found in our two Audit Findings Reports, which was published and reported to the Council's Audit & Governance Committee on 30 November 2022. These reports set out the adjustments made to the accounts as a result of the audit.

## Whole of Government Accounts

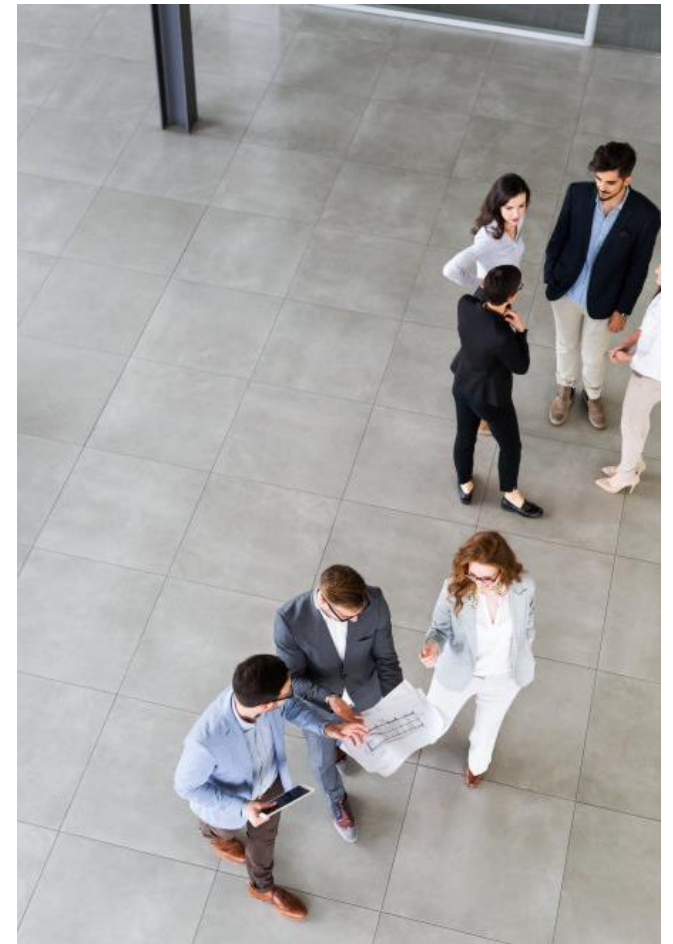
To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline.

## Preparation of the accounts

The Council provided draft accounts in line with the national deadline. The quality of the draft financial statements and on the whole the supporting working papers continue to be of a good standard. There was scope to improve working papers in relation to property valuations and some breakdowns of accounts balances. Joint working with the external audit team was very good.

## 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

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.

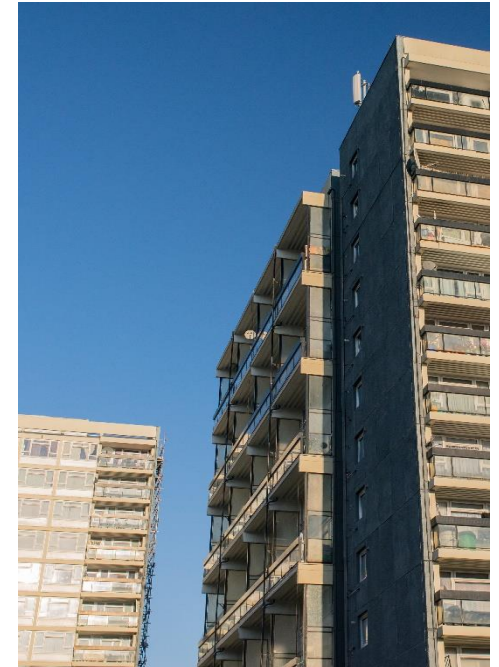
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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
<p>Financial sustainability was identified as a potential significant weakness:</p> <p>“The Council has set a balanced budget for 2022/23. This was achieved through a combination of factors including identifying efficiencies (£8M) and a use of earmarked reserves. The medium financial outlook is more uncertain, with budget gaps of £12.2 million in 2024/25 and £9.6 million in 2025/26. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.”</p> <p>We will review the plans the Council has in place to close the gaps, paying particular attention to the robustness of any savings plans.</p>	<p>We have reviewed and considered the Council’s arrangements in place during the year for monitoring and reporting on its short and medium term financial position.</p>	<p>From our work carried out we have concluded that, in general, there are plans in place to address the funding gap for 2022/23 and future years.</p> <p>See report pages 7 – 17.</p>	<p>Appropriate arrangements are generally in place.</p> <p>We have therefore concluded that there is no significant weakness with regards to the Council’s arrangements for ensuring its financial stability.</p> <p>We have made some improvement recommendations. These relate to closing the financial gap, delivery of savings and the capital programme.</p>

# Appendix C – An explanatory note on recommendations

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

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.	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	Financial Sustainability: pages 14 – 17 Governance: pages 23 – 25 3Es: pages 36 - 38



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## **AUDIT AND GOVERNANCE COMMITTEE**

### **10 MARCH 2023**

## **STATUTORY ACCOUNTS 2022/23 PROGRESS, ACCOUNTING POLICIES AND ESTIMATES**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that:**
  - a) The work in preparation for the 2022/23 Statutory Accounts be noted;**
  - b) Consideration be given to the implications of the revised statutory deadline for the draft Statutory Accounts of 31 May 2023;**
  - c) The accounting policies for 2022/23 be approved; and**
  - d) 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 2022/23 statutory accounts workplan.

### **Accounting Policies 2022/23**

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 2022/23 Statement of Accounts will include the relevant accounting policies.
4. Following a review, there is one change to the Council's accounting policies for 2022/23, which is the introduction of a de minimis level of £5,000 for capitalisation. There is no de minimis level introduced for capital expenditure by schools.
5. There are other amendments to the wording of our accounting policies for the 2022/23 accounts, however these are not changes to the policies themselves, but rather expansion of detail in our accounts to clarify existing policies.
6. Appendix 1 to this report details the Accounting Policies and any proposed changes for 2022/23.

### **Statutory Accounts Progress Update**

7. The Central Finance Team are on target with both the preparation work required for the Statutory Accounts production, and with responses to support external audit

planning and initial risk assessment activity.

8. The statutory deadlines for the 2022/23 accounts are for draft statements to be published no later than 31 May 2023, and for external Audit sign-off to be completed by 30 September 2023. The Council's detailed closedown plan is built around these deadlines.

9. The next Audit and Governance Committee meeting is currently scheduled for 21 July 2023. Therefore Committee will need to consider the appropriate course of action to enable approval of the draft accounts. The preferred option would be to schedule an additional Committee meeting at the end of May. Alternatively, delegated authority could be granted for approval to the Chief Financial Officer, in consultation with the Committee Chairman and Vice-Chairman.

10. Asset valuations will be performed in the main by Wilks Head & Eve (WHE), who have been our valuers since 2020/21. The number of assets valued is significantly higher this year than previously planned on the rolling 5-year programme. This is to reduce the number of assets that hold a value based on a valuation by the previous valuer, Place Partnership Ltd. (PPL). We have calculated that once the 2022/23 valuation exercise is completed, around 99.8% of our assets by net book value will have a WHE assessment as the basis for their value on the balance sheet.

11. The Energy from Waste (EfW) asset is to be revalued by Hilco Valuation Services, as was the case in previous years, due to the specialist nature of this asset.

12. Work instructions have been issued and valuation works will include a period to allow discussion and challenge prior to the presentation of the formal reports.

13. The Central Finance Team have delivered training to Service Finance staff on closedown procedures, with a particular focus on some issues identified during the 2021/22 external audit. Detailed closedown deadlines and instructions have also been issued to all relevant stakeholders.

14. In 2022/23, 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 2021/22:

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

**Worcestershire Children First (WCF)**

15. 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 into the group accounts, in accordance with IFRS 10: Consolidated Financial Statements.

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

16. 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 had joint control, there is a separate vehicle in place, and WCC has rights to 25% of the net assets of the arrangement.

## Accounting Estimates 2022/23

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 year for the year ending 31 March 2023 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 2022/23 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 2022/23 is included as an Appendix to this report.

## Contact Points

### Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

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

Chris Bird, Chief Accountant

Tel 01905 846994

Email: [cbird1@worcestershire.gov.uk](mailto:cbird1@worcestershire.gov.uk)

## Supporting Information

- Appendix 1: 2022/23 Accounting Policies
- Appendix 2: 2022/23 Accounting Estimates

## **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.

## Appendix 1 - Worcestershire County Council Accounting Policies.

This document contains the WCC Accounting Policies, as they are stated in the 2021/22 Audited Statement of Accounts, with proposed additions highlighted. It is the opinion of the Chief Accountant and the Chief Financial Officer that these additions do not represent changes to the Accounting Policies, with the exception of the introduction of the de minimis level for Capitalisation.

### Note 1 – General Accounting Policies

The Statement of Accounts summarises the County Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The County Council is required by the Accounts and Audit Regulations 2015 (as amended) to prepare an annual Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and International Financial Reporting Standards (IFRS). The Accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future. There is no material uncertainty in respect of this assessment of going concern.

Local authority school assets, liabilities, reserves and cash flows are recognised in the County Council's financial statements. Maintained schools comprise: Community, Voluntary Aided, Voluntary Controlled and Trust schools. Academies and Free schools are not maintained by the County Council and are not included in the consolidation.

The County Council has determined, in accordance with accounting standards and the Code of Practice on group accounts and consolidation, all maintained schools in the Worcestershire area are now considered to be separate entities controlled by the County Council. Rather than produce group accounts the revenue costs and associated balances of all maintained schools, such as accruals, provisions and cash balances, are included in the County Council's financial statements.

Consolidation of other accounts held by schools such as school funds and devolved capital accounts were reviewed and judged to be immaterial and are not recognised on the County Council's Balance Sheet. The Statement of Accounts contains estimated figures based on assumptions made by the County Council. Estimates are made considering historical experience, current trends and other relevant factors. Actual results may potentially be different from the assumptions and estimates used by the County Council and relevant notes include an assessment of the potential material impact of any changes in estimates which lead to significant risk of material adjustment in 2022/23.

### Note 5 – Expenditure and Income Analysed by Nature

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised at the point that the service is provided or is charged for. It is not considered that this would be materially different from recognising revenue from contracts with service recipients when, or as, the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet, subject to a de minimis of £5,000.

Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## Note 6 – Grant and Contribution Income

Government grants, third-party contributions, and donations are recognised as due to the County Council when there is reasonable assurance that:

- the County Council is acting as principal (as opposed to agent)
- the County Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts are credited to the Comprehensive Income and Expenditure Statement once the conditions attached to the grant or contribution have been satisfied. Where the conditions have not been satisfied they are carried in the Balance Sheet as creditors or receipts in advance and credited to the relevant service line once the conditions are met.

## Note 14 – Property, Plant and Equipment

Physical assets that support the delivery of our services and have a life of more than one financial year, are classified as Property, Plant and Equipment (PPE).

### Recognition

Expenditure on PPE is capitalised on an accrual basis in the accounts, provided that it is probable that the future economic benefits (including service potential) associated with the item will flow to the Authority, that the cost of the item can be measured reliably, and that it exceeds the Authority's de minimis threshold. This may include any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Authority. The Council does not capitalise borrowing costs.

Expenditure which is maintenance only is charged to the Comprehensive Income and Expenditure Statement when it is incurred.

The County Council applies a de minimis level of £5,000 for the capitalisation of expenditure on Property, Plant and Equipment. Items of expenditure below this de minimis level are charged to the relevant service within the Comprehensive Income and Expenditure Statement in the reporting period it is incurred. There is no de minimis level for capitalisation for Schools.

Purchased assets are initially measured at cost. Non-purchased assets (including donated assets) are measured at fair value, or at the carrying amount where there is no commercial substance (e.g. via exchange). The detailed bases for measuring assets are given below:

- Land and buildings – Current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Vehicles, plant and equipment - Current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Infrastructure – Depreciated historical cost
- Community assets – Depreciated historical cost
- Assets under construction – Historical cost

Capital expenditure that does not result in the creation of a long-term asset (Revenue Expenditure Funded from Capital under Statute, known as REFCUS) is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. Where the cost of this expenditure is met from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account so that there is no impact on the level of council tax.

Depreciation is provided for on PPE assets over their useful lives, with major components depreciated separately. Assets without a determinable finite useful life (e.g. freehold land and certain Community Assets) or that are not yet available for use (e.g. assets under construction) are not depreciated. The calculation is on a straight-line basis over the remaining useful life of the assets as estimated by the 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 5-year life, with IT equipment depreciated over 3 years.

### **Infrastructure Assets**

Accounts are prepared to reflect the December 2022 amendment to Local Authorities (Capital Finance and Accounting) (England) regulations 2003. The gross historical cost and accumulated depreciation for Infrastructure Assets has not been separately reported; instead, the net book value and movement in the year has been disclosed with total Property, Plant & Equipment balances reconciled to the Balance Sheet total. Further explanation of the Council's accounting policy in respect of Highways Network Infrastructure Assets is noted below.

#### Highways Network Infrastructure Assets

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

#### Infrastructure Assets - Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the Authority, and that the cost of the item can be measured reliably,

#### Infrastructure Assets - Measurement

Highways network infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost. Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

#### Infrastructure Assets - Depreciation

Depreciation is provided for on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Annual depreciation is the depreciation amount allocated each year. Useful

lives of the various parts of the highways network are assessed using industry standards where applicable.

#### Infrastructure Assets - Disposals and derecognition

When a component of the Network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss (i.e. netted off against the carrying value of the asset at the time of disposal).

The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Where a part of the network is replaced, an adaptation provided in a separate update to the Code assumes that, from the introduction of the IFRS based Code, when parts of an asset are replaced or restored, the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

### Note 14.2 – Revaluations

Asset categories are revalued at least every five years on a rolling basis in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2021 and UK National Supplement. This also ensures compliance with the CIPFA Local Authority Code of Practice, which states that valuations shall be carried out at intervals of no more than five years. Further revaluations are carried out where there have been material changes. Assets are revalued where completed capital expenditure represents more than 15% of the asset's opening net book value or is greater than £100,000. Non-property assets with short useful lives and/or low values are valued at depreciated historical cost and where there is no market-based evidence of current value because of the specialist nature of the asset, depreciated replacement cost (DRC) is used. The County Council's valuations as at 31 March 2023 have been completed by:

Mark Aldis (Hons) MRICS RICS Registered Valuer IRRV

Wilks Head & Eve LLP

3rd Floor 55 New Oxford Street

London

WC1A 1BS

Where increases in value are identified, the carrying amount of the asset is increased with a corresponding entry for the gain in the Revaluation Reserve.

Where decreases in value are identified, they are accounted for by:



the carrying amount of the asset writing down the balance of revaluation gains for the asset in the Revaluation Reserve; or

the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement where there is no, or insufficient, balance in the Revaluation Reserve.

Upon revaluation (upwards or downwards) previously accumulated depreciation is eliminated and the asset shown at the newly revalued figure.

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Note 14.4 – Downward Revaluations and Disposal Losses

Disposal proceeds more than £10,000 are categorised as capital receipts and used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the Capital Financing Requirement). Gains or losses arising from the derecognition of an asset recognises the difference between the disposal proceeds and carrying value of the asset and is included in the Surplus or Deficit on the Provision of Services. There is then a credit to the Capital Receipts Reserve equal to the disposal proceeds and a debit to the Capital Adjustment Account for the carrying amount of the fixed asset disposal.

Schools converting to academy status are transferred for nil consideration.

## 14.7 – School Assets

The land and buildings utilised in the provision of education services across the County are recognised in accordance with the asset recognition tests as they are judged to apply to the different type of arrangements. The accounting treatment of the schools' land and buildings is as follows:

Community schools – land and buildings are legally held by the County Council and are shown in full on the Balance Sheet. Valuation of these assets is at depreciated replacement cost to reflect the specialist nature of the assets;

Voluntary Controlled schools and Voluntary Aided schools - land and buildings comprising the main body of the school are legally held by the other entities. In Worcestershire this is either the Church of England or Catholic Diocese who retain the control of the asset. The review determined that, for these assets, legal ownership in conjunction with the substantive rights to the asset and future economic

benefits sit with the relevant church body. Accordingly, the County Council has not shown these assets on the Balance Sheet;

Foundation schools/ Trust schools – land and buildings comprising the body of the school are legally held by other entities. The review determined that, for these assets, legal ownership in conjunction with the substantive rights to the asset and future economic benefits sit with the relevant church body. The County Council has use of the assets but is not able to exert substantive control over them or to receive any future economic benefits. Accordingly, the County Council has not shown these assets on the Balance Sheet;

Assets provided by the County Council as part of its responsibility for running the schools are shown on the Balance Sheet (for example the funding of mobile classrooms);

Academy schools (previously community schools) – are not maintained by the County Council. The land and buildings comprising the body of the schools are leased to the academy on a 125-year lease and are therefore not shown on the Balance Sheet. Where the County Council has retained the freehold of the land, the land is held on the County Council balance sheet at a nominal value to reflect its restricted use.

Local authority schools which are due to convert to academy status post balance sheet date are treated as non-adjusting post balance sheet date events. Where a school transfers after 31 March 2022, details are given in the Events after the Balance Sheet date note at the end of the accounts.

## Note 14.8 – Non-operational Assets

Assets held for sale are actively marketed and, as such, are not depreciated.

## Note 14.9 – Capital Expenditure and Capital Financing

Minimum Revenue Provision (MRP) is a charge to the General Fund and is shown in the Financing and Investment Income and Expenditure on the Comprehensive Income and Expenditure Statement, with a matching entry in the Capital Adjustment Account. It represents an annual contribution from revenue towards the provision for the reduction in our overall borrowing requirement. MRP is charged over a period that is broadly commensurate with the period over which the County Council receives benefit from the asset. The charge is calculated using the asset life method on an annuity basis for either:

- The average life of all assets at 31 March 2008 for pre-2008 debts, and
- The average asset class life for post-2008 debts, using schools, highways and other assets as our key categories.
- For PFI assets, the MRP charge is based on the useful economic life relevant to each asset.

## Note 15 – Private Finance Initiatives (PFI)

Private Finance Initiative (PFI) contracts are agreements to receive services where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the County Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the County Council at the end of the contracts at no additional charge, the County Council carries the property, plant and equipment used under the contracts on its Balance Sheet. The original recognition of these property, plant and equipment at their fair value is balanced by the recognition of a liability for amounts due to

the PFI provider. Property, plant and equipment recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council.

The amounts payable to the PFI contractors each year are analysed into five elements:

- a) Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- b) Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement under Financing, investment income & expenditure.
- c) Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.
- d) Payment towards liability – applied to write down the Balance Sheet liability, current and long term, towards the PFI operator.
- e) Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the Balance Sheet and recognised as property, plant and equipment when the contractor incurs the expenditure.

The County Council has 4 PFI contracts providing waste services (including energy from waste), schools and library services. These contracts have been assessed as meeting the requirements of IFRIC 12 and the non-current assets relating to the service provision have been brought on to the County Council's Balance Sheet with a corresponding finance liability.

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. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council.

## Note 16 – Financial Instruments

Financial instruments are contracts that give rise to a financial asset for one party and a financial liability to another party. Non-exchange transactions such as those relating to taxes and government grants do not give rise to financial instruments. The term includes financial assets such as bank deposits, investments and loans and accounts receivable and financial liabilities including borrowings and amounts payable. They are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of the Financial Instrument and are carried in-line with the requirements of IFRS 9.

The fair value calculations have been provided by the County Council's Treasury Management advisors for PWLB loans, LOBO loans, PFI Liabilities and shares in unlisted companies.

Debtors and Creditors are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently measured at their amortised cost.

## Note 16.2 – Financial Assets

Financial assets are classified as either:

- Amortised Cost – where the County Council holds the asset to collect payments of principal and interest and the cashflows arising not subject to variations in capital value. These are recognised on the Balance Sheet when we become party to the contractual provisions of the instrument and are initially valued at fair value, with subsequent measurement at amortised cost.
- Fair Value through profit and loss –in all other cases. These are recognised on the Balance Sheet when we become party to the contractual provisions of the instrument and are initially valued at fair value, with subsequent measurement at market price for instruments with quoted prices or discounted cash flow for instruments with fixed and determinable payments

## Note 16.3 – Financial Liabilities

Financial liabilities are recognised on the Balance Sheet once there is a contractual obligation and are initially measured at fair value and carried at amortised cost. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value of loans has been assessed at current market conditions by calculating the present value of the cash flows that take place over the remaining life of the loans.

## Note 16.4 – Fair Value of Financial Assets and Liabilities

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions.

Financial liabilities and financial assets classified as loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of remaining cash flows at 31 March 2022 using fair value techniques appropriate to the characteristics of each instrument, using the following methods and assumptions:

- Loans taken out by the Council have been valued by discounting contractual cash flows over the life of the instrument at the appropriate market rate for local authority loans.
- The carrying value of long-term instruments, represented by long-term debtors, is deemed to be a reasonable proxy for fair value as this debtor will be repaid by 31 March 2024 and therefore the discounting of future cashflows over this two year period is not a material difference.
- The fair values of finance lease and PFI scheme liabilities have been calculated by discounting the contractual cashflows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- The fair value of short-term instruments, including trade payables and receivables, is deemed to be not materially different to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy.

Level 1	Fair value is derived from quoted prices in active markets for identical assets or liabilities
Level 2	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability
Level 3	Fair value is determined using unobservable inputs

### Note 18 – Debtors

Debtors are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently at amortised cost

### Note 20 - Creditors

Creditors are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently at amortised cost.

### Note 27.1 - The County Council as lessee – operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense. Charges are made on a straight-line basis over the life of the lease.

### Note 27.2 – The County Council as lessor – operating leases

Where an asset is leased by the County Council to a third party as an operating lease the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

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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 2022/23.
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 February 2023). 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 retained RICS registered firm Wilks Head & Eve LLP to undertake our asset valuations in 2022/23.	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 2022/23.



				<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. In 2022/23 we will consider RICS guidance, and information provided by our expert valuer, to determine any potential uncertainty as a result of the impact of inflationary pressures 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	There are no changes to the method/models used in 2022/23.

				as well as year-end procedures.	
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 2022/23.
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	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 2022/23.

	<p>calculated on a straight-line basis over 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>				
Measurement of Financial Instruments	<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>	Y	<p>Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks, as well as any additional credit risks arising as a result of wider economic factors or global events. Risks to accounting estimates used in our measurement of</p>	<p>There are no changes to the method/models used in 2022/23.</p>

				financial instruments 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 2022/23.

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 – although some of our pre-closedown work is reviewing our PFI models against Grant Thornton’s version of our models, to identify and resolve any discrepancies.	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 2022/23.
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 2022/23.

	<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 2022/23.</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 2023.	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 2022/23.
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 2022/23.



	<p>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.</p>	<p>externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.</p>			
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## **AUDIT AND GOVERNANCE COMMITTEE**

### **10 MARCH 2023**

## **ANNUAL GOVERNANCE UPDATE**

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### **Recommendations**

- 1. The Chief Financial Officer recommends that the Annual Governance update be noted.**

### **Background**

2. The Annual Governance Statement was presented to Councillors at its July 2022 Audit and Governance meeting, as part of that an action plan was provided to Committee. Updates were provided to the September and November Committees and this report gives the latest update.

### **Progress**

3. This report shows:
  - Overall, most actions are on time and being progressed.
  - There continues to be some delay arising from the departure of the Monitoring Officer in the financial year which will now mean some action will flow over into late 2023.
  - Some of the work around performance has also slipped as SLT are reviewing the arrangements surrounding risk management.
4. A large proportion of this work is due to be delivered in the final quarter of this year and as such this progress is broadly as expected and a further report will be brought to the July Committee. An update on the actions is attached as an Appendix.

### **Supporting Information**

Appendix - Annual Governance Statement 2021/22 Action Plan Progress

### **Contact Points**

Michael Hudson, Chief Financial Officer

Tel: 01905 726268

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

### **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.

**Annual Governance Statement 2021/22 Action Plan Progress**

Task	How	Progress
<p>Financial Management &amp; Resilience: ensuring that financial monitoring is supported by a robust and realistic budget and effective and timely in-year monitoring of performance against budget and delivery of agreed savings plans.</p>	<p>The Finance Improvement Programme has a series of projects to undertake work on financial reporting, controls and E5 maximisation.</p> <p>This will be linked to the revisions / interdependency below relating to improvements in the coming financial year to the performance and business planning framework.</p> <p>Agree the expectancy and support with SLT/COG</p> <p>Move forward on self-service, with clear roles and accountability (linked to training below), for example ensuring budget for spend is secured before any decision is taken and that decision is in line with the scheme of delegation also noted below.</p>	<p>Overall, the FIP Project is on schedule. The FIP has been agreed with Chief Officer Group (COG). A Separate update on the FIP Project was included in the November Committee papers.</p> <p>The intranet project will now not start until May 2023 due to overruns on the internet work. This is being mitigated by continuing work by Service Finance and Financial Operational services (FOS) to ensure staff across the council are aware of procedures and who is their key contact.</p> <p>New system changes have been implemented in January 2023 to enable clearer reporting on adult social care costs.</p> <p>Further mandatory training is planned to start from April 2023.</p>

Task	How	Progress
<p>An assurance gap analysis of decision making, including boards and roles of directors to help drive a constitutional refresh to support and strengthen effective business decision making. This will include for example schemes of delegation and contract procedure rules.</p>	<p>The Business Support Team will map all decision-making Boards, projects and the forward plan for internal and external meetings (for example SLT or Cabinet).</p> <p>SLT/COG to recommend a reduction and focus of all boards, with then COG having an oversight of all Boards and exception reporting which can then be escalated as appropriate to SLT.</p> <p>This will comment on the constitutional and decision making of those boards and projects within, as well as make recommendations to the constitutional review for improvements to the Constitution / schemes of delegation as well as policies and procedures. Including ensuring all policies and procedures reference are in place and up to date, and compliant / consistent with other policies.</p> <p>All Strategic Directors to sign off Directorate Scheme of Delegation each February and carry out mid-year review (September) to make any changes (with standard template of core requirements – i.e. Finance, HR, etc...)</p>	<p>Progress has been delayed due to the departure of the Monitoring Officer.</p> <p>A summary of the existing Boards and potential boards has begun with COG and a list of changes is being finalised for sign off by COG and SLT in the next month. Whilst that is three months behind schedule, the delay should not have an impact on the constitutional changes work. This will be picked up by the new Monitoring Officer.</p> <p>Work is on-going to develop a Scheme of Delegation template, and this work will be picked up by the incoming Monitoring Officer.</p>

Task	How	Progress
	<p>Procurement Rules &amp; Contract Procedure Rules to be updated in 2023 and annual review going forward</p> <p>All managers to complete mandatory training on decision making and understand role and accountability, as well as decision making powers with consequences also understood for not following.</p> <p>Annual Report on compliance to go to the Audit &amp; Governance Committee</p>	<p>This work will be picked up by the new Monitoring Officer alongside the other constitutional matters to engage CPU.</p> <p>A training module is in progress of being drafted and this work will be picked up by the new Monitoring Officer.</p> <p>This will be addressed in July 2023.</p>
<p>Strengthen the Council's performance framework, including service plans linked to performance and medium-term financial plans.</p>	<p>A review of the business planning cycle with improvement and embedding for 2023/24 with actions to enable that in 2022/23 that ensure all areas have a service plan, KPIs and aligned budget to delivery that meets the MTFP.</p> <p>This will be set out in a overarching document for each level of responsibility that includes the roles, accountability / timings and expectations and consequences for not delivering against these.</p>	<p>A draft cycle has been presented to COG and the Project Management and Performance Management Teams are progressing the development of this for the production of 2023/24 Business Plans and associated documents. This has been delayed though at SLT are reviewing arrangements surrounding risk management in order to align this with the business planning cycle. As such a revised risk approach I also being targeted to role out in May 2023.</p> <p>Following the approval of the budget in February 2023 services now need to finalise their service plans.</p>

Task	How	Progress
<p>Strengthen the process around capital decision making, including business cases.</p>	<p>Undertake a review of learning and best practice from current schemes to recommend improvements.</p> <p>Update the Constitution and Financial Regulations to set out that improved process with appropriate policies and procedures, as well as training and clarity of roles.</p> <p>Gateways and decision making is clear, for example prioritisation scoring, MRP and costs more transparent in the decision-making process and the process is followed with consequences</p> <p>The delegations, including specificity of the schemes being carried out and funding under the Capital Programme are transparent and approved.</p>	<p>A Capital Board is now in place and a drafted / outline Terms of Reference is in the process of being signed off that sets out the decision-making governance structure for sign off by the Board early April. This is a slight delay due to the focus on setting the budget.</p> <p>This is in progress and on time.</p> <p>A revised approach is to be recommended to the April 2023 Capital Board. This again has been delayed due to the focus on setting the 2023/24 budget.</p> <p>The Capital Board Terms of Reference are in draft and will feed into the Constitutional review.</p>
<p>Further enhance the working between Officers and Members, including Officer Register of Interests.</p>	<p>A LGA sponsored programme of development.</p> <p>A review and continuous learning and improvement of the Member / Officer protocols.</p>	<p>LGA development days were held in July 2022.</p> <p>This work will need to now be picked up by the new Monitoring Officer.</p> <p>This work will be picked up by the new Monitoring Officer.</p>



Task	How	Progress
	Formal annual update of the officer register of interest linked to performance reviews, with mandatory training so all are aware.	
Focus on core competency training and development for all employees, in particular HR, finance, decision making and performance management.	<p>Design development programmes across various levels within the organisation for managers, supervisors and staff to ensure that competencies required at each level enable each to perform their duties effectively.</p> <p>2023 Performance Reviews to include standard targets / objectives for all staff appropriate to their level around HR, Finance and Decision Making. With direction to training as required. This includes thus focused mandatory training as appropriate to role across different levels, and corporate training basic level for all.</p> <p>2023 Performance monitored and reported on these competencies with appropriate reward, development and action.</p>	<p>The Officer Training Module is now live on the Intranet to record and direct individual's training.</p> <p>The development programme is being developed alongside need, including Well-Being in line with the HR Strategy.</p> <p>These are in progress regarding review and due to be completed by 31 March 2023.</p> <p>Our Performance maturity is being evolved in line with this for later in 2023.</p>

## AUDIT AND GOVERNANCE COMMITTEE

### 10 MARCH 2023

## INTERNAL AUDIT PROGRESS REPORT

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### Recommendations

1. The Acting 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 overall risk management, governance, anti-fraud and corruption and internal control processes.

### Audit and compliance 2022/23 deliverables and plan

3. Progress against the 2022/2023 audit plan continues and is shown in detail at Appendix 1. The dashboard below provides an overview including the status of reviews.

Status	Quarter	Quarter	Quarter	Quarter
	1	2	3	4 to date
Grants Certified	2	5	8	10
Grants - Start Fieldwork		2	1	2
Audit - End Audit		3	3	7
Audit - Responses received			1	1
Audit - Draft report issued			1	3
Audit - End Fieldwork	2	2	2	1
Audit - Start Fieldwork	6	2	6	7
Audit - Terms of Reference Agreed		2		
	10	16	22	31

The figures are compounded but are broken down into quarters to show the deliverables as the year progresses.

### Audit actions update

4. We are working closely with operational service managers to ensure that actions are undertaken. For actions relating to limited assurance audits where a follow up audit is planned, actions are transferred to the new audit. Audit report actions are included in Appendix 2

## **Anti-Fraud and Corruption**

5. The National Fraud Initiative (NFI) is a data matching exercise within and between public and private sector bodies to help prevent and detect fraudulent activity. The Council have received back all the NFI reports which require review and we are working with service areas to ensure timely review of the matches.

6. Since the last Committee of the 4 open reported inquiries, 2 have been closed and for 2 we are continuing with our inquiries. We have received a further 5 inquiries which have been considered and appropriate action has been undertaken either by investigation by Internal Audit or service areas reviewing the inquiry. 3 of these have been closed and 2 remain open.

## **Advisory Services**

7. Since our last report we are undertaking advisory work with the Archaeology service to offer guidance where required.

## **Grant certifications**

8. 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. 10 grants have been certified as accurate to date. Details of certifications are given in Appendix 1.

## **Staffing**

9. Currently the Audit and Compliance Manager is overseeing the day-to-day operational aspects of the Internal Audit Service with support from the Chief Internal Auditor of the Worcestershire Internal Audit Shared Services. This arrangement is set to continue until at least the end of the financial year.

10. As reported in November 2022 we had two vacancies within the Internal Audit service. We have successfully recruited an agency member of staff on a temporary basis to one of the posts and are now actively seeking to recruit to the other post.

11. The team continues to develop, and we have a healthy mix of qualified staff and those undertaking training. All staff have regular performance reviews in line with the Council framework, undertake all mandatory training and have regular 1 to 1 sessions.

## **Contact Points**

Andy Bromage, Chief Internal Auditor, Worcestershire Internal Audit Shared Service  
Tel: 01905 722051  
Email: Andy.Bromage@worcester.gov.uk

Kathryn Kenderdine, Audit and Compliance Manager  
Tel: 01905 843096  
Email: kkenderdine@worcestershire.gov.uk

Michael Hudson, Chief Financial Officer  
Tel: 01905 845560  
Email: mhudson@worcestershire.gov.uk

## **Supporting Information**

Appendix 1 Audit Status  
Appendix 2 Audit Actions

## **Background Papers**

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

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<b>Audit</b>	<b>Type</b>	<b>Current Milestone</b>	<b>Rating</b>
2021/22-58 - BEIS Public Sector Decarbonisation Grant	Certification	End Audit	Certified
2022/23-08 - Worcester Business Central Growth Hub	Certification	End Audit	Certified
2022/23-10 - Broadband UK	Certification	End Audit	Certified
2022/23-16 - Contain Management Outbreak Fund	Certification	End Audit	Certified
2022/23-18 - Drug Treatment Grant	Certification	End Audit	Certified
2022/23-20 - Local Transport Capital Block Funding	Certification	End Audit	Certified
2022/23-22 - Bus Subsidy (Revenue) Grant	Certification	End Audit	Certified
2022/23-24 - Peer Networking	Certification	End Audit	Certified
2022/23-32 - Community Renewal Fund	Certification	End Audit	Certified
2022/23-39 - Adult Weight Management Services Grant	Certification	End Audit	Certified
2020/21-76 - Rigby Hall Day Special	Assurance	End Audit	Limited Assurance
2021/22-75 - Redhill Primary School	Assurance	End Audit	Limited Assurance
2022/23-07 - Shrub Hill Governance	Assurance	End Audit	Limited Assurance
2022/23-26 - Dodford First School	Assurance	End Audit	Limited Assurance
2021/22-11 - Comberton Primary School	Assurance	End Audit	Moderate Assurance
2021/22-14 - Direct payments	Assurance	End Audit	Moderate Assurance
2022/23-34 - Rigby Hall Follow Up	Assurance	End Audit	Moderate Assurance
2022/23-27 - Office of the Public Guardian Inspection for Appointees and Deputies	Assurance	Responses Agreed	Moderate Assurance
2021/22-06 - Employee starter process	Assurance	Draft Report Issued	Not assessed
2021/22-56 - Employee leaver process	Assurance	Draft Report Issued	Not assessed
2022/23-25 - North Bromsgrove High School	Assurance	Draft Report Issued	Not assessed
2021/22-54 - Long term agency and consultancy placements	Assurance	End Field Work	Not assessed
2022/23-23 - Disabled Facilities Grant	Certification	Start Field Work	Not assessed
2022/23-30 - Rough Sleepers Grant - Interim Review	Certification	Start Field Work	Not assessed
2021/22-71 - Contract review - Ringway	Assurance	Start Field Work	Not assessed
2021/22-72 - Contract register - supplier spend analysis	Assurance	Start Field Work	Not assessed
2022/23-33 - Westacre Middle	Assurance	Start Field Work	Not assessed
2022/23-35 - Elmley Castle School	Assurance	Start Field Work	Not assessed
2022/23-36 - Capital	Assurance	Start Field Work	Not assessed
2022/23-37 - Batchley First School	Assurance	Start Field Work	Not assessed
2022/23-38 - Fairfield First School	Assurance	Start Field Work	Not assessed

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	Not Due	Transferred	Cleared	0-3 months	3-6 months	6-12 months	>12 months
<b>Substantive Assurance Audits</b>							
2020/21-81 - Transport services, external and internal management and reporting			2		1		1
<b>Moderate Assurance Audits</b>							
2022/23-34 - Rigby Hall Follow Up	2						
2022/23-27 - Office of the Public Guardian Inspection for Appointees and Deputies	11						
2021/22-14 - Direct payments	4						
2020/21-50 - PY - Asset management - Property	1		6	1		1	
<b>Limited Assurance Audits</b>							
2021/22-75 - Redhill Primary School	9						
2021/22-07 - HR mileage and expenses	4						
2021/22-05 - Insourced services – advisory and assurance support	1						
2022/23-26 - Dodford First School	8		3	4			
2022/23-07 - Shrub Hill Governance	6		1				
2020/21-42 - Debt management	15						
	61	0	12	5	1	1	1

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **10 MARCH 2023**

## **INTERNAL AUDIT PLAN FOCUS 2023/24**

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### **Recommendations**

- 1. The Acting Chief Internal Auditor recommends that the Internal Audit Plan focus 2023/2024 be approved.**

### **Background**

2. The objectives of the Internal Audit Service are to:
  - examine, evaluate and report on the adequacy and effectiveness of internal control and risk management across the Council and recommend arrangements to address weaknesses as appropriate;
  - examine, evaluate and report on arrangements to ensure compliance with legislation and the Council's objectives, policies and procedures;
  - examine, evaluate and report on procedures to check that the Council's assets and interests are adequately protected and effectively managed;
  - undertake independent investigations into allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation; and
  - advise upon the control and risk implications of new systems or other organisational changes.

### **Plan Formulation**

3. The attached Internal Audit Plan Focus (Appendix 1) details the coverage and approach we will take to provide assurance to the Council. The Plan is a risk-based Plan considering the adequacy of the Council's risk management, performance management, challenges, other assurance processes as well as organisational objectives and priorities. The most appropriate review method i.e., process, hybrid, light touch, critical friend will be decided as part of the detailed scoping depending on the circumstances and risks at the time the review is undertaken. School audits feature prominently in the plan. We will work towards achieving a satisfactory outcome by adopting and following the process as indicated in Appendix 2.

4. We recognise there are other review functions which provide other sources of assurance, both internally and externally, (e.g., ICT Public Service Network, cyber essentials assurance testing) over aspects of the Council's operations. Where possible we will seek to place reliance on such work thus expanding the internal assurance coverage without specifically including the area in the plan.

5. To try to reduce duplication of effort we understand the importance of working with the External Auditors. The audit plan is shared with the external auditors for information along with some of the work that is undertaken during a review.

## **Resourcing**

6. The 2023/24 Internal Audit Plan Focus provides high level review areas for the year. We have assessed the resource requirement against availability and can confirm that the Plan is based on a full establishment. We currently have two vacancies but are actively recruiting. With a successful recruitment drive we will be able to deliver the required level of coverage under current arrangements. Failure to recruit will result in us reconsidering the plan and adjusting it based on organisational risks. Any adjustment will not jeopardise the end of year Chief Internal Auditor opinion. 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 including any planned adjustments.

## **Internal Audit Charter**

7. The Internal Audit Charter (Appendix 3) approved by this Committee in March 2022 remains predominantly unaltered and is attached for information. The Audit Charter will be reviewed as soon as the new Chief Internal Auditor is in post and will be brought before Committee for formal approval. The current Charter remains fit for purpose and provides the mandate under which the team operates. The key performance indicators indicated in the Charter will continue to be reported during 2023/24 until such time the Charter is reviewed. 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 and progress against the Plan.

## **Contact Points**

Andy Bromage, Acting Chief internal Auditor  
Tel: 01905 722051  
Email: [andy.bromage@worcester.gov.uk](mailto:andy.bromage@worcester.gov.uk)

Kathryn Kenderdine, Audit and Compliance Manager  
Tel: 01905 843096  
Email: [kkenderdine@worcestershire.gov.uk](mailto:kkenderdine@worcestershire.gov.uk)

## **Supporting Information**

Appendix 1 – Internal Audit Plan 2023/2024 Focus Plan  
Appendix 2 – Flow Chart – School Review Process  
Appendix 3 – 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

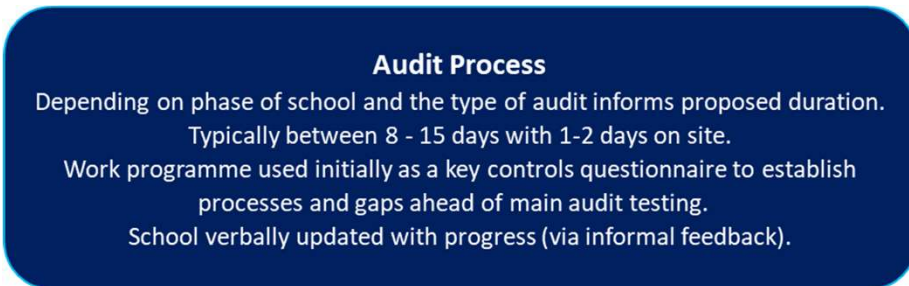
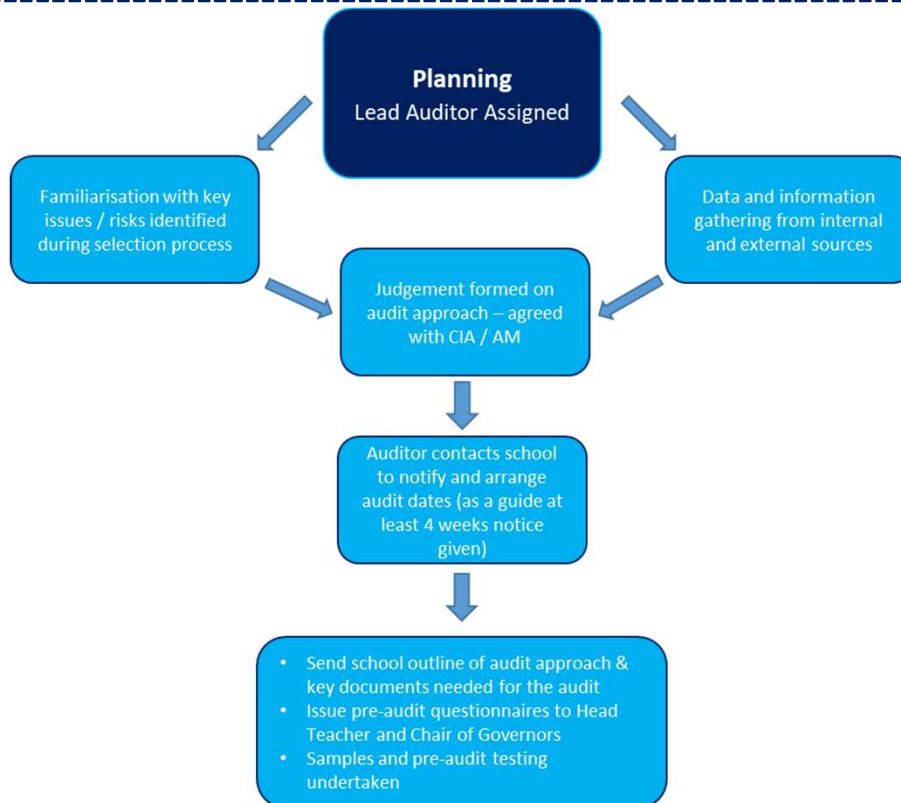
## Internal Audit Plan 2023/2024

Audit Focus	2023/2024 Days
Certification - WCF	36
Certification - WCC	30
Advisory - WCC	67
Audit - WCF	106
Audit - WCC	608
Schools	197
<b>Total</b>	<b>1044</b>

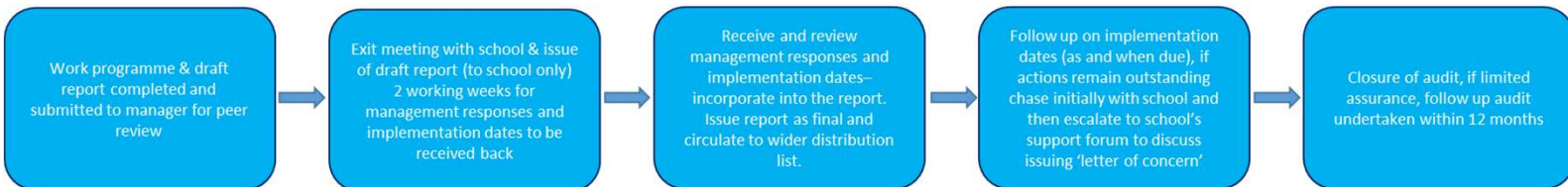
## Detailed Audit Plan for WCC Audits

Directorate	Audit Area	Audit	Number of Days
Chief Executive	HR	HR mileage and subsistence follow up audit, Sickness absence, HR Performance Cycle	45
	IT	Starters and Leavers from an IT perspective and inventory	33
	Pension Fund	Review of Pension Administration and Pension Investment systems and processes	73
	Governance	Review of constitution and AGS action plan	18
	Operational Services	Brokerage and Debt Management follow up audit	31
Commercial and Change	Contract Management	Review of major contracts	46
	Governance	Information Governance follow up audit	31
Economy and Infrastructure	Transport	Review of transport systems	13
	Major Projects/Contracts	Review of major contracts	39
People	Procurement	Review of procurement card expenditure	31
	Contract Management	Review of contracts	15
	Governance	Partnership arrangements which the Council are involved in	71
Public Health	Business Continuity	Business Continuity follow up audit	15
	Expenditure	Review of impacts of public health expenditure	16
Corporate	IT	Legacy systems follow up audit	16
	Contract Management	Review of contracts which cover more than one directorate	42
	Governance	Review of the Business Planning cycle and decision making procedures	55
	Procurement	Review of Procurement procedures across the Council	18
<b>Total number of days for WCC audits</b>			<b>608</b>

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**Completion & Follow-up**





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Internal Audit Charter  
2023/2024

# 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.

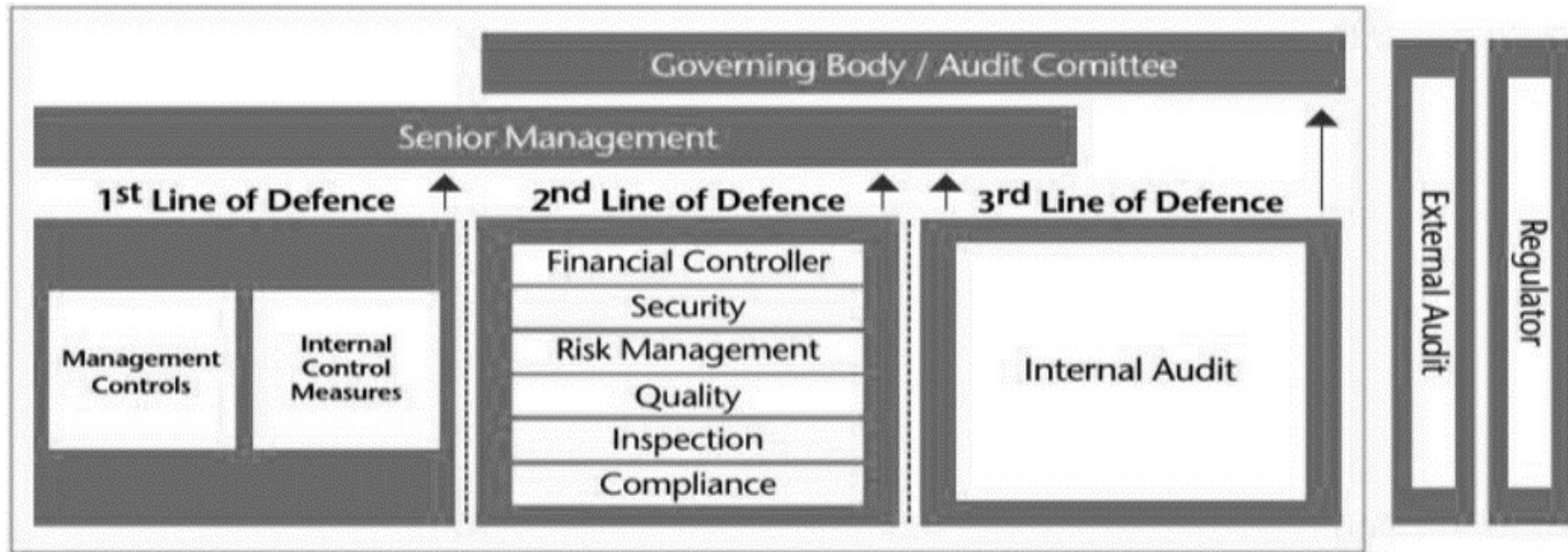
To ensure this independence and objectivity internal auditors provide advisory rather than decision making services, remaining independent of the activities we audit and rotating staff across audits.

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 2023/24.



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## **AUDIT AND GOVERNANCE COMMITTEE**

### **10 MARCH 2023**

## **IT CONTROL RECOMMENDATIONS – PROGRESS REPORT**

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### **Recommendation**

- 1. The Chief Finance Officer recommends that**
  - a) The progress and latest management comments on IT Controls 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 that it wishes to report to the Council.**

### **Background**

2. Members will recall that at the Committee meeting on 30 November 2022, the Committee requested that a report be brought to this meeting on the progress being made on the development of IT systems to improve the management control mechanisms over journals.
3. In March 2021, Grant Thornton completed an IT Audit report for Worcestershire County Council and the Pension Fund. The report included ten recommendations around overall IT Controls. Of these ten, three remain not fully implemented.
4. A reminder of these recommendations, the initial management response to the report, and further management comments captured in February 2023 are attached as an Appendix to this report.
5. As at March 2023, the Finance Systems Team have appointed to two new posts in their structure which will enable faster completion of development work, including the control issues still outstanding.
6. In the 2021/22 Audit Findings Report, Grant Thornton reported that there were inconsistencies in the process for manual journals, with staff theoretically able to use non-manual journal types to enter manual journals. This increases the risk of fraud or error, as it would allow system users to disguise manual journal entries as (for example) payroll journal entries.
7. The Systems Finance Team are currently in discussions with the system developers to explore options to increase the in-system controls. Until there is a resolution, the audit approach for manual journals will be as it was for 2021/22 – a widening of the population data to include all journal types, and an assessment of the users who have input different journal types, to provide assurance that journal entries

are being processed correctly.

8. A further systems issue that had been identified in previous audits but raised again in 2021/22 was the asset register. Since the introduction of E5, the process of creating assets on the balance sheet at year-end (which uses expenditure data to create a 'prompt file') had resulted in several assets being created, with different values, where one single asset would be more suitable.

9. Following the upgrade to E5 in June 2022, this issue should now be resolved for 2022/23 year-end, and a solution has been found to amend existing asset balances, by consolidating the fractured asset references into single records.

## **Contact Points**

### Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

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

Chris Bird, Chief Accountant

Tel 01905 846994

Email: [cbird1@worcestershire.gov.uk](mailto:cbird1@worcestershire.gov.uk)

## **Supporting Information**

- Appendix: IT Recommendations management comments

## **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.

## Appendix – March 2023 update on Grant Thornton 2020/21 IT Control recommendations

No.	Issue	Initial Management Response (March 2021)	Updated Management Response (March 2023)
1	User access for terminated employees/ leavers not disabled in a timely manner	The process to identify employee leavers will be enhanced to provide timely notification to Finance system staff to delete Altair and E5 system access	<p>Following the e5 upgrade in June 2022, we now have single sign-on for Finance System users. This means the E5 user accounts are now directly linked to Council AD (Active Directory) accounts.</p> <p>In November 2022, automatic disabling was enabled so that E5 access is now automatically disabled when a AD account is closed or suspended.</p>
2	Lack of documentation over Altair change of access rights	User access are assigned to a particular job role in line with the requirements of the role. There is a dedicated module to manage the security appropriately, of which only the team managers have access	As previous
3	Lack of documentation over testing performed for Altair upgrades	<p>This dedicated application has been used by the vast majority of LGPS funds for many years. Over that time a strong control framework has been developed which includes a testing working party who perform user acceptance testing. With every new release, Aquila Heywood issues a release guide detailing the content and changes incorporated into that release, and the system help is updated accordingly.</p> <p>Where appropriate, webinars are provided, which give training on the amendments.</p> <p>Furthermore, specialist user groups can provide additional support. To provide the WCC fund with</p>	As previous

		additional assurance, a dummy payroll is run after each upgrade in TEST	
4	Lack of review of information security event/audit logs	Altair and E5 record any attempt to access the system, storing the date and time a user attempted to access it, and whether that attempt was successful. We can interrogate this data, and this will now be done on a regular basis	Improved Audit logs have been included in the development list, with intent to integrate this into the system and processes as soon as possible.
5	Insufficient periodic review of user access	A regular review of users will be undertaken and system access rights updated with any changes	A review of user roles is on the development list, with a view to embedding into BAU processes as soon as possible.
6	Lack of documented IT operations policies	We are currently reviewing our Financial Regulations and Scheme of Delegation.  This exercise will include a review of key policy documents and will include a review of IT policies	As part of the Finance Improvement Plan, there is a workstream on financial regulations. Furthermore, IT have now included relevant policy documents on their webpage accessible to staff members.
7	Lack of documentation/evidence on E5 batch job completion process	The E5 Financial Systems Team receive a one-word email notification upon the completion of a batch job process and this either confirms that the process has successfully completed or has abended. The Team promptly investigates all abended processes and carries out remedial action as required in order to ensure the integrity and completeness of the Financial System. We will consider evidencing this process to enable independent review and verification.	The procedure has been altered to now include notification, confirmation and logging of a batch number following a batch process.
8	Non-compliance with the password policy	We will review the password settings within E5 and Altair, with a view to aligning these to the WCC password policy	There is now single sign-in, so the password settings are fully aligned.

9	Lack of process to proactively review IT service provider assurance reports	The County Council will consider this and discuss with the software providers for Altair and E5 with the aim of receiving suitable assurance	ISO27001 certificate has been received and reviewed
10	No employee acknowledgement of the WCC IT policies	We will give consideration to introducing a process whereby employees are required to acknowledge their understanding and adherence to WCC IT Policies	We are currently developing a business case to take to COG to approve the creation of a mandatory eLearning course to be completed by all employees to confirm understanding and acceptance of our IT policies.

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **10 MARCH 2023**

## **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**

#### **21 July 2023**

Annual Governance Update  
 Internal Audit Annual Report 2022/23  
 Draft Annual Governance Statement 2022/23  
 Draft Annual Statutory Financial Statements for the year ending 31 March 2023  
 External Audit – Audit Plan 2022/23 and Informing the Risk Assessment 2022/23  
 Internal Audit Progress Report 2023/24  
 Corporate Risk Report  
 Finance Improvement Programme  
 People Directorate – Debt Position Statement  
 (Training Session on Treasury Management)

#### **22 September 2023**

Annual Governance Update  
 Internal Audit Progress Report 2023/24  
 External Audit – Audit Findings Report  
 Annual Governance Statement  
 Annual Statutory Financial Statements for the year ending 31 March 2023  
 Corporate Risk Report  
 (Training Session on Constitution)

#### **1 December 2023**

Annual Governance Update  
 Internal Audit Progress Report 2023/24  
 External Auditor – Annual Audit Letter  
 Corporate Risk Report  
 Finance Improvement Programme  
 Income and Debt Management  
 (Training Session on Financial Sustainability)

#### **March 2024**

Annual Governance Update  
 External Audit – Audit Plan 2023/24 and Informing the Risk Assessment 2023/24  
 Internal Audit Progress Report 2023/24  
 Internal Audit Plan 2024/25



Corporate Risk Report  
(Training Session on Internal Audit)

**Contact Points**

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

**Background Papers**

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