

Agenda

Audit and Governance Committee

Friday, 22 September 2023, 10.30 am
County Hall, Worcester

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Audit and Governance Committee
Friday, 22 September 2023, 10.30 am, Lakeview Room, County Hall, Worcester

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

Agenda

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1	Apologies and Named Substitutes	
2	Declarations of Interest	
3	Public Participation <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, 21 September 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	Confirmation of Minutes To confirm the Minutes of the meeting held on 21 July 2023. (previously circulated)	
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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 13 September 2023

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AUDIT AND GOVERNANCE COMMITTEE

22 SEPTEMBER 2023

DRAFT ACTION PLAN FOR REVIEW OF THE COUNCIL CONSTITUTION

Recommendation

- 1. The Assistant Director for Legal and Governance recommends that the action plan for the review of the council constitution plan for 2023/24 be noted.**

Background

2. At the meeting on 21 July 2023 the committee was advised of draft plans to review the following standing orders of the Council constitution as part of the annual governance action plan:

- Member/ Officer Relations protocol
- Contract Standing Orders
- Financial Regulations
- Scheme of Assignment of Responsibility for Functions

3. This report sets out the timetable leading up to a report for the Council meeting on 16 May 2024 for Council to consider the proposed changes.

Content

4. A constitution is a living document which should be periodically reviewed to ensure it stays both relevant and consistent. A good constitution is one that is used by councillors and officers alike. The sections of the constitution referenced in paragraph 2 have been flagged at previous committee meetings as areas of the constitution which should be reviewed to ensure that they continue to be fit for purpose.

5. The Council adopted the LGA Code of Conduct at the Council meeting on 18 May 2023. The relationship between members and officers is a critical element of the governance framework, so it makes sense to review the member/ officer relationship protocol now.

6. A review of the contract standing orders and the financial regulations will help further strengthen commercial activity around contracting and procurement.

7. A review of the Scheme of Assignment of Responsibility for Functions will promote transparency of decision making and ensure anyone can easily identify who can make decisions and why.

8. An officer working group will undertake the review. Any review of the constitution needs to be overseen by members, including the parameters of the exercise. A report will be prepared for members of the Audit and Governance Committee at its meeting in March 2024 to consider any proposed amendments. Committee members will be asked to recommend a report is presented at the Council meeting in May 2024.

9. The table below sets out the timetable for the review of the report. The timetable allows for time to reflect on plans and to iterate, and it makes it easier to manage a review and revision of the constitution around other ongoing work.

Timetable

	Standards and Ethics Committee (Speak to Chair)	Audit and Governance Committee	Council meeting – decision maker for changes to constitution
Member/ Officer Protocol	Deadline for papers to be published 09.01.24 Date of meeting 17.01.24	Deadline for papers to be published 29.02.24 Date of meeting 08.03.24	Deadline for papers to be published 08.05.24 16.05.24
Contract Standing Orders		Deadline for papers to be published 29.02.24 Date of meeting 08.03.24	Deadline for papers to be published 08.05.24 Date of meeting 16.05.24
Finance Regulations		Deadline for papers to be published 29.02.24 Date of meeting 08.03.24	Deadline for papers to be published 08.05.24 Date of meeting 16.05.24
Assignment of Functions for Responsibility (scheme of delegation for officers)		Deadline for papers to be published 29.02.24 Date of meeting 08.03.24	Deadline for papers to be published 08.05.24 Date of meeting 16.05.24

Contact Points

Specific Contact Points for this report

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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)

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AUDIT AND GOVERNANCE COMMITTEE

22 SEPTEMBER 2023

PROGRESS ON 2022/23 EXTERNAL AUDIT AND 2021/22 AUDIT RECOMMENDATIONS

Recommendation

- 1. The Chief Financial Officer recommends that:**
 - a) The progress on the 2022/23 external audit be noted;**
 - b) The completed and planned work on the External Auditor's recommended actions from 2021/22 audit be noted; and**
 - c) The progress on the 2022/23 External Audit be noted.**

Background

2. In March 2023, this Committee received the External Auditor's Annual Report for 2021-22.
3. The report contained nine recommendations from the External Auditor for the County Council. The Committee requested regular updates on these recommendations.
4. Separately, 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 remained not fully implemented as at the last Committee update in March 2023. The Committee requested timely updates on the progress of actions regarding these recommendations.
5. The external audits for both Worcestershire Pension Fund and Worcestershire County Council are currently underway, having commenced in summer 2023. The statutory Deadline for publication of Audited Accounts is 30 September 2023.

Update on 2021/22 External Audit Recommendations

6. Recommendation 1 – The Council should continue to develop and implement mitigating actions to address the budget gaps in years 2022/23 to 2024/25.
7. Update on Recommendation 1 – the timing of the budget setting process and the publication of the audit report means that the specifics of this recommendation are somewhat out of date by the time the recommendations are put in front of the Committee. The budget for 2022/23 is of course already over, and 2023/24 is well underway with a balanced budget set in February 2023. Nonetheless, the main point

of the recommendation is that the Council should be looking to address MTFP budget gaps, which is incorporated into our budget setting process. At the time of this Committee, the first Corporate Strategy Planning sessions have been held and the MTFP position has been discussed. With the current one-year settlements from Central Government, Committee should be aware that every MTFP iteration is likely to have budget gaps in future years which is similar for all council across the country.

8. Recommendation 2 – The Council should continue to develop and implement mitigating actions to address the forecast £13.1m budget overspend for 2022/23

9. Update on Recommendation 2 – As with the first recommendation, this deals with a specific issue which is now in the past. The Council managed to identify enough mitigations to reduce the 2022/23 overspend to £7.3m, which itself was then funded through one-off reserves.

10. 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.

11. Update on Recommendation 3 – The monthly budget monitoring reporting to COG (Chief Officer Group) and SLT (Senior Leadership Team) now include an assessment of savings achievement for the year, by Directorate. The monthly report forms the basis of the Resources Report, presented periodically at Cabinet. This small change is a big increase in visibility of directorate savings targets, the forecast achievement/non-achievement, and the impact on revenue budgets.

12. It should also be noted that the budget setting Cabinet paper for 2023/24 included as an appendix a full list of all planned savings for the forthcoming financial year.

13. Recommendation 4 – The Council should ensure that there is a robust financial governance framework around its capital programme, including ensuring the capital programme includes agreed grant funding, and to assess the impact of slippage in the Capital Programme into future years.

14. Update on Recommendation 4 – The process around Capital governance has been tightened, including a refreshed monitoring methodology and the introduction of the Capital Board, which is a monthly extension to SLT meetings. Schemes to be considered by Cabinet for inclusion in the programme must first be approved by Capital Board, which is attended by the Chief Financial Officer. Other groups such as the Corporate Landlord Board and WCF Property and Accommodation Panel are feeders into Capital Board. The format of the programme has also been revised to ensure that all funding sources – including grants – are disclosed.

15. Recommendation 5 – The Council should enhance and further embed the risk strategy in place.

16. Update on Recommendation 5 – Committee received an update on the Council's risk approach in July. The Council's new approach can be described as three phases:

- a. Risk Management
- b. Risk Capture
- c. Risk Reporting

17. At the July Committee meeting, the Chairman indicated that he was confident that the Council's approach to risk management was moving in the right direction and he supported the approach being taken, particularly with Strategic Directors taking overall ownership of the risk management process.

18. Recommendation 6 – The Council should review and update the Constitution.

19. Update on Recommendation 6 – This recommendation was most recently discussed at the July Committee meeting, where members received an update from the Assistant Director of Legal and Governance. Committee were informed that a review of the Constitution would be undertaken particularly focusing on Contract Standing Orders, Financial Regulations, the Scheme of Delegation to Officers and the Member/Officer Protocol. Officer working groups would be established for each of these streams. A report outlining the proposed amendments to the Constitution would be brought to the March 2024 Committee meeting. The final decision would be taken at Council in May 2024

20. 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.

21. Update on Recommendation 7 – Work has progressed on moving towards this. The July meeting of the Overview and Scrutiny Performance Board (OSPB) included the first annual update of the Corporate Plan monitoring report. This is available to the public on the Council's website.

22. Recommendation 8 – Performance reporting should provide detailed narrative of action being taken where spikes or dips are evident.

23. Update on Recommendation 8 – internal performance reporting arrangements are in development, which will include exception reporting (red-assessed or deteriorating KPIs) and detailed commentary on actions to be taken. The responsibility for completing this narrative will sit with Assistant Directors (Chief Officer Group).

24. Recommendation 9 – The Council's Financial Regulations and Contract Standing Orders (CSOs) should clearly articulate the roles and responsibilities for procuring, awarding, and approving contracts.

25. Update on Recommendation 9 – The Council's Financial Regulations and CSOs are currently undergoing a full review by Central Finance, to link in with the review of the full constitution as per recommendation 6.

Update on 2020/21 IT Control Recommendations

26. Appendix 1 to this report outlines the progress made against the recommendations for IT Controls. The three highlighted actions are the ones that were considered as outstanding at the last Committee update in March 2023.

Progress on 2023/24 External Audit

27. The statutory deadline for the Council to have published fully audited accounts is 30 September 2023. The Committee has been informed previously that the deadline would not be met due to resourcing difficulties across the external audit sector. However at the March 2023 meeting of the Committee, Grant Thornton assured members that the audit would be progressed as quickly as possible.

28. The difficulty in meeting the statutory deadline is not a Worcestershire issue. Appendix 2 to this report is a letter from Lee Rowley MP, which acknowledges the currently local government audit backlog and outlines proposals to tackle this going forward.

29. With this in mind, it is the opinion of both the External Auditors and the WCC Finance Team that the audit is currently progressing as expected. The nationwide issue of reinforced autoclave aerated concrete (RAAC) is highly likely to result in material adjustments to the draft financial statements – due to changes in building values – and this is currently being worked through with our valuers.

30. At present, there are no other issues arising from the external audit that require Committee attention.

Contact Points

Specific Contact Points for this report

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Supporting Information

- Appendix 1: Progress on 2020/21 IT Audit Recommendations
- Appendix 2: July 2023 letter from Lee Rowley MP

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 – September 2023 update on Grant Thornton 2020/21 IT Control recommendations

No.	Issue	Most Management Response (March 2023)	Updated Management Response (September 2023)
1	User access for terminated employees/ leavers not disabled in a timely manner	<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>	As previous
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	As previous – regular scrutiny is not yet embedded in BAU.
5	Insufficient periodic review of user access	A regular review of users will be undertaken and system access rights updated with any changes	As previous – regular scrutiny is not yet embedded in BAU. A process has been introduced whereby Leaver information comes through IT to Finance Systems Team and user accounts are disabled. This ensures that there are no known leavers with active accounts. However, as Leaver forms are not always completed correctly, we acknowledge that the regular review is still required.
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 previous
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	As previous

		completeness of the Financial System. We will consider evidencing this process to enable independent review and verification	
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	As previous
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	As previous
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	COG agreed in July that an IT policies module would be included in the mandatory training from Q1 2024/25

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Department for Levelling Up,
Housing & Communities

Lee Rowley MP

*Parliamentary Under-Secretary of State for Local
Government and Building Safety*

Clive Betts MP

Chair, Levelling Up, Housing and Communities
Committee

***Department for Levelling Up, Housing and
Communities***

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14 July 2023

Dear Clive,

Thank you for inviting me to give evidence on 17 July to the Levelling Up, Housing and Communities Committee inquiry into Financial Reporting and Audit in Local Authorities. A strong, well-functioning local audit system is essential to maintain public confidence in transparent and accountable local democracy. Local bodies must be able to plan, manage their services and base their decision-making on accurate, reliable, up-to-date and timely financial information.

In advance of the evidence session, I would like to update you on work since Spring this year that my department, along with Financial Reporting Council colleagues, has undertaken on proposals to address the significant backlog of local government audits in England and develop a sustainable solution to the timeliness challenges which the local audit sector has faced in recent years. The attached paper derives from this work and outlines clear proposals to resolving these issues, which have been agreed in principle with key partners in the local audit system.

While the proposals will be subject to further work and engagement across the system over the Summer, this constitutes significant further progress. The intention is that, subject to the conclusion of the appropriate details, agreed changes will be implemented by the end of this year.

This letter supplements the written evidence submitted to the Committee in April on our broader programme of reform across the local audit system.

I look forward to discussing these issues further with you and the Committee next week. This letter and the accompanying statement will also be deposited in the House library.

Yours sincerely,

LEE ROWLEY MP

**Parliamentary Under-Secretary of State for
Local Government and Building Safety**

LOCAL AUDIT DELAYS – CROSS-SYSTEM STATEMENT ON PROPOSALS TO CLEAR THE BACKLOG AND EMBED TIMELY AUDITS

Introduction

1. There has been a deterioration in the timeliness of local audit since 2017/18, with delays compounding during the COVID-19 pandemic, leading to a persistent and significant backlog of audit opinions. Since November 2020, the Department for Levelling Up, Housing and Communities (DLUHC) has implemented a wide range of measures to improve timeliness and the wider local audit system as part of its response to Sir Tony Redmond's *Independent Review of local financial reporting and audit*.¹ In addition, in December 2021 DLUHC published a further package of measures to improve local audit delays, which went beyond Sir Tony Redmond's original recommendations.
2. We recognise that fuller action is required. This note sets out a range of broad proposals and actions, agreed in principle with key partners across the local audit system, to address the backlog of local audits in England. Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework, and we must collectively ensure that the local audit system is on a strong and sustainable footing for the future. There exists a shared resolve and commitment amongst the organisations referenced in this document to take action now to tackle the exceptional circumstances of the current backlog and ensure a return to timely delivery of high-quality financial reporting and external audit in local bodies,² in order to provide the vital accountability and assurance needed for local people and their elected representatives.
3. Further engagement and cross-system work will be needed this Summer to finalise the proposals outlined in this statement. Following this, we anticipate changes to the relevant codes and standards will be made in time for implementation to begin by the end of December 2023.

Context

4. Local audit completion for the financial year 2021/22 remains at approximately 27 percent, with the combined total of outstanding local audits dating back to 2015/16 now totalling nearly 520. This is clearly unacceptable. There is consensus across the system that there is now no alternative but to take collective action to resolve the backlog. Restoring timely audit and financial reporting will improve local accountability, strengthen the government's ability to identify warning signs of potential failure in local bodies and provide assurance to local residents about financial management and governance.
5. DLUHC, working with the Financial Reporting Council (FRC) as it prepares to commence the shadow system leadership role, has led urgent cross system work over the Spring - involving auditors, Section 151 Officers, regulators, government departments and other key stakeholders – to find a solution to reset the system.

ADDRESSING THE LOCAL AUDIT BACKLOG: PROPOSITION

6. Working together, the National Audit Office (NAO) and DLUHC intend to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed

¹ [Local authority financial reporting and external audit: independent review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-authority-financial-reporting-and-external-audit-independent-review)

² Local bodies include councils but also other relevant authorities as defined under the Local Audit and Accountability Act (2014)

audits for financial years 2015/16 to present. Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation's financial controls, financial reporting as well as financial resilience, governance and risk. Where necessary, it is intended that auditors would need to limit their opinion and make clear to the users of the accounts those aspects or sections of a set of accounts which are not supported by sufficient, appropriate evidence, and which the auditor is unable to provide assurance over. Auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) are an important mechanism for assurance and for identifying areas of concern at an early stage, allowing councils to address them. Under these proposals this will remain a high priority.

7. These deadlines may result in qualifications and disclaimers of opinion in the short term for a number of local bodies. We believe that these steps are necessary to reset the system and to restore the assurance which is provided by timely annual audits. Whilst further detailed work is needed across the Summer, including to mitigate any unintended consequences of these measures, there is broad consensus from organisations referenced in this document that without any action being taken, the delays will continue for a number of years, and in that scenario, when the delayed audits are reported, they will offer little if any assurance about the current position. In the meantime, there is a heightened risk of auditors not identifying and reporting on important, more current issues. We must ensure the capacity of the sector is focused on the most recent position as soon as possible.
8. Where an auditor has to issue a disclaimer of opinion, however, there will still be a need to audit the opening balances of the subsequent set of accounts, as the prior year figures will not be covered by an unqualified auditor's opinion. The Department is seeking to ensure that work to clear the backlog of accounts takes place within a limited window of time. It will therefore consider measures to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years and ensure the burden of auditing opening balances does not risk creating further delays. An important consideration will be ensuring there is appropriate assurance in place for opening balances for the start of the new contract period for the 99% of local bodies which have opted in to Public Sector Audit Appointments Limited's (PSAA) scheme.

Commitments by system partners

9. The **National Audit Office** is considering the development of a replacement Code of Audit Practice to give effect to the changes outlined above. This would include a requirement on auditors to issue the audit opinion for specific financial years in line with new statutory deadlines set out in legislation for the relevant authority. Auditors' statutory requirement to report on value for money arrangements would remain unchanged. Auditors would also be expected to facilitate a smooth transition during the contract handover period for the 2023/24 contracts. As part of this work the NAO will be establishing a specific Programme Board to provide the necessary governance to deliver a replacement Code of Audit Practice by the end of the year including the necessary consultation and Parliamentary process.
10. Alongside this **DLUHC** is considering whether legislative change is needed to:
 - a. set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

- b. address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years.
11. Under these proposals the **Chartered Institute of Public Finance and Accountancy (CIPFA)** would issue guidance to support accounts preparers to follow any amended regulations which set out new statutory deadlines, provided the authority is in receipt of the appropriate audit findings report from the auditor. CIPFA would also set out how Section 151 Officers should approach their responsibilities to certify the accounts in light of potential qualifications or disclaimers which may result from these proposals.
 12. To support these changes, the **Financial Reporting Council (FRC)** will publish guidance on its regulatory approach to Major Local Audits³ (MLAs), articulating the importance of timeliness and compliance with statutory deadlines as an additional measure of audit quality. It will work with the NAO on the development of guidance where necessary to assist with the application of standards for these audits, including the need to meet the statutory dates. Local auditors will be required to have regard to and follow the NAO's guidance. The FRC's inspection activity would review auditors' compliance with auditing standards, the Code and relevant NAO guidance.
 13. The FRC will use its broader supervisory role to ensure commitment from audit firm leaders to implement the policy measures and the steps that are being taken to meet the timetables for concluding historical audits. This route will be used to escalate any pervasive concerns the FRC has gathered on an audit firm's resilience, risk management and ability to deliver timely local audits and address their part of the backlog.
 14. Under these proposals the FRC intends not to undertake routine audit quality reviews and inspections of MLAs for the historic audits up to the end of the 2021/22 financial year (though FRC will continue to inspect audit firms which deliver NHS audits). FRC will only conduct quality review inspections for historical audits where there is a clear case in the public interest to do so. The FRC will suspend the decision on the timing, scope, and coverage of inspections for the 2022/23 audits until there is confirmation of any revision to the NAO's Code of Audit Practice.
 15. The FRC will need to ensure that its enforcement function is still able to appropriately gather information and evidence to determine whether, in the public interest, there should be an investigation into accounting or auditing issues where there are significant financial and governance failures.
 16. The **Institute of Chartered Accountants in England and Wales (ICAEW)** is responsible for the inspection and regulation of non-Major Local Audits.⁴ The ICAEW proposes that its regulatory response to these measures will be consistent with the planned action of the FRC, as set out above.
 17. **PSAA** is responsible for appointing an auditor and setting scales of fees for local bodies that have chosen to opt-in to its national scheme. A small number of authorities are not opted-in to PSAA's scheme and appoint their own auditors independently. Under these proposals, PSAA anticipates that it will need to determine final fees for opted-in authorities for the historic periods on a case-by-case basis. Its guiding principle in this will remain that if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted, then they are due the appropriate fee for the

³ An audit of a local government body or NHS body with income or expenditure of at least £500m or a local authority pension scheme with at least 20,000 members or gross assets in excess of £1bn.

⁴ ICAEW's Quality Assurance Department (QAD) is responsible for reviewing local audits conducted under the Local Audit and Accountability Act that are not major local audits.

work done, and the body is due to pay the applicable fee, including where there is a disclaimer or qualified opinion. Conversely, if an auditor has collected audit fees in part or in full, and a change in requirements means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount – this ensures that the bodies pay only for work that has been done.

18. A number of **audit firms** with responsibility for local audits from 2015 have been a party to the development of these proposals, and under these plans would work with DLUHC, FRC and NAO on their professional commitment to the steps they would take to ensure successful implementation of the measures to clear the backlog. Such a commitment, underpinned by the auditors' professional duty to be independent and deliver consistent high-quality and timely work, would be welcomed by all parties within the system. Audit firms will of course need to operate in accordance with any changes to the Code of Audit Practice as well as continuing to fulfil their existing statutory duties.
19. **Chief Executive Officers, Section 151 Officers and Audit Committees** also play a critical role in delivering high-quality financial reporting. DLUHC will continue to engage Section 151 Officers and the wider sector as proposals are further developed over the Summer.
20. Under these proposals, Section 151 Officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time. In addition, Chief Executives, Section 151 Officers, local authority Leaders and Chairs of Audit Committees should alert the auditor to significant organisational risks, critical decisions and changes in financial sustainability, and also where they have identified concerns on systems of financial control, financial reporting and capacity and capability to produce high-quality financial reporting on time. Where there are significant resilience risks, they should alert the auditor of the options, choices and alternatives that are being considered.
21. We will work with the **Local Government Association (LGA)** over the Summer, including to engage its members on these proposals. Under these proposals the LGA will support councils to understand their role in relation to external audit and that of auditors, and help councils communicate those messages to elected members and officers as necessary. The Department will also continue to engage with Section 151 Officers and treasurers' societies, in addition to representatives from the range of authorities impacted by these proposals.

LONGER TERM CHANGE

22. In order to prevent a recurrence of the backlog, it is essential that underlying issues which may have driven delays are addressed. Work will therefore progress with a number of organisations including the FRC, the NAO, CIPFA and the LGA to devise an escalated reporting framework for audit firms and local bodies to resolve issues ahead of statutory deadlines. We will also look to publish a list of local bodies and audit firms which meet statutory deadlines and those which do not.
23. Other underlying challenges will also continue to be addressed. The FRC is already leading work across the system to improve competition, capability and supply within the audit market. The FRC, supported by DLUHC, is committed to producing a workforce strategy by the end of the 2023 calendar year, which will identify gaps and barriers across the local audit system that are hindering the development of future capacity and agree actions and solutions to unblock these with stakeholders.

Local financial reporting, auditing and regulatory requirements

24. It is critical that a repeat of the backlog is avoided in the future. Work across the local audit system must therefore be sustainable and ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.
25. Although reporting and disclosure requirements required by the Code of Practice on Local Authority Accounting have not changed for many years, there is a perception that both audit and regulatory expectations relating to the audit of non-investment assets have increased significantly in recent years. As a result, both account preparers and auditors frequently engage specialist valuers to provide the level of assurance which is thought to be necessary. In his review, Sir Tony Redmond noted a lack of consensus within the system over how to address this.
26. Local authority financial reporting must balance the need for adherence to financial standards against the needs of the users of local authority financial information, including ensuring the accounts are still useful and valuable to the taxpayer. Where reporting, auditing and regulatory standards combine to create pressures which delay timely reporting and audit, this should be addressed by responsible organisations across the local audit system. Doing so is vital in ensuring the delicate balance between high-quality financial reporting and user value is maintained.
27. There is also a question as to whether the level of work required for the current reporting and disclosures obligations on account preparers, which then require audit and oversight, is proportionate to their value to the user of the accounts, given the potential financial or governance risks are relatively low. All system participants therefore need to consider whether this work is proportionate to risk and a wise use of taxpayers' money, and will do so in the coming months.
28. Local authority accounts are consolidated within the statutory Whole of Government Accounts, which are prepared in accordance with International Financial Reporting Standards (as adapted and interpreted for the public sector). Since 2010 these standards have been reflected in the Code of Practice on Local Authority Accounting, which is independently set by CIPFA and passed by the CIPFA LASAAC⁵ board, under the advice of the Financial Reporting Advisory Board (FRAB) - an independent advisory board.
29. In light of these issues, the **Comptroller & Auditor General (C&AG)** is considering changes to the Code of Audit Practice relating to certain balances in the accounts to prevent continued local audit delays while a broader solution is sought. The C&AG is taking this action under the requirement of the 2014 Local Audit and Accountability Act that he should keep under review whether the existing Code continues to embody best professional practice with respect to the standards, procedures and techniques to be adopted by local auditors. As such, it reflects the seriousness with which he views the current delays in the local audit system. Potential changes would be time limited and would need to be supported by wider changes to standards and regulation.
30. The NAO has established a dedicated programme board, supported by at least three working groups, to develop the potential changes and related technical questions with stakeholders. A range of mechanisms will be considered to allow auditors to discharge their responsibilities to gather sufficient, appropriate and reliable audit evidence in accordance with International Standards on Auditing (ISAs).

⁵ Local Authority (Scotland) Accounts Advisory Committee

31. The C&AG, as he is required to do by the Local Audit and Accountability Act 2014, will keep the Code of Audit Practice under review and will consider the effectiveness and operation of any changes made to the Code. This would inform a wider review of the measures to clear the backlog outlined above.
32. **His Majesty's Treasury (HMT)** is conducting a thematic review of the valuation of non-investment assets such as roads and office buildings for financial reporting purposes across the public sector. The review is seeking to evaluate the advantages and disadvantages of the current valuation regime and consider the appropriate measurement options.
33. There are advantages to the alignment of central and local government accounting, including allowing local government accounts to be more easily consolidated into the statutory Whole of Government Accounts. As set out above, however, the level of work required by account preparers and auditors must not limit the value of the accounts to the user. **CIPFA** is therefore exploring changes to the Code of Practice on Local Authority Accounting for the medium and long term, in order to enable a more proportionate approach to the accounting requirements for non-investment assets and pension valuations for a local authority context. As a standard setter, CIPFA's guiding principle in approaching any changes to the reporting requirements adopted by the public sector in 2010 will be ensuring that high-quality financial reporting and the utility of financial statements to account users is maintained. As outlined above, any consideration of changes to accounting requirements will be accompanied by a broader set of measures from actors across the system.
34. CIPFA's work will run in parallel to HMT's thematic review. As the body responsible for local government accounting requirements, CIPFA is part of the working group HMT has set up for the review. CIPFA has clearly set out its view on the review's proposals. CIPFA will continue to work with HMT to ensure that any consequential changes to the Government Financial Reporting Manual (FRoM) and the Code of Practice on Local Authority Accounting are considered fully to ensure that the users of local authority accounts are incorporated.
35. In addition, CIPFA has already made a temporary adjustment to the Code on the valuation and reporting requirements for local authority infrastructure assets, to support amendments to regulation made by DLUHC in December 2022. However, clearly a long-term solution needs to be developed. This will take longer than the current temporary measures (both legislative and Code based) allow. As such, DLUHC will seek to extend the changes made to legislation last year and CIPFA will consider whether the current amendments to the Code can be extended in tandem.
36. **The Financial Reporting Council (FRC)** has committed to set out annually its planned regulatory programme, areas of focus and how its inspection activity serves the public interest through alignment with the significant financial, accounting and governance risks facing local bodies. As part of this the FRC expects to clearly set out how its inspection activity will review auditors' work on operational assets and pensions valuation, the rationale for doing so and examples of good practice. FRC inspection activity will continue to review compliance with auditing and ethical standards, any revised Code of Audit Practice and associated guidance.
37. The FRC has also indicated, in principle, that if the audit and reporting requirements for operational asset and pensions valuations are revised, its intention will be to update the inspection approach to reflect the changes in these areas.
38. The FRC's Audit & Assurance Sandbox initiative is taking forward a specific policy discussion on the application of materiality by local authority auditors. The Sandbox brings together groups of auditors, practitioners, regulatory bodies and interested parties to explore, identify and develop solutions to specific technical and policy issues. The

materiality discussions are expected to conclude before the end of the year. Next steps could include, for instance, the FRC determining whether additional guidance is required to support how auditors set materiality levels for local bodies in line with auditing standards or working with those local audit suppliers who decide to set a different basis of materiality without such guidance.

Conclusion

39. The local audit system, which comprises all of the organisations listed above, recognises the need to restore the timeliness of financial reporting and audit in local government. That is why all system partners have made clear proposals to reduce the backlog of local audits in England which are detailed in this statement. The Government will continue to work with the FRC and all key partners across the system to continue this ambitious programme of work over the Summer. As noted above, this will include consideration of longer-term changes in order to create a more sustainable local audit system for the future.

14 July 2023

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AUDIT AND GOVERNANCE COMMITTEE

22 SEPTEMBER 2023

INTERNAL AUDIT PROGRESS REPORT

Recommendations

- 1. The Chief Internal Auditor recommends that the Internal Audit progress report be agreed.**

Background

2. The role of the Council's Internal Audit service is to enhance and protect organisational value by providing independent assurance, advice and insight into the Council's risk management, governance, and internal control processes.

Audit and compliance 2023/24 Q2 deliverables and Q3 plan

3. Progress against the 2023/24 audit plan is shown in Appendix 1, including the status of reviews for the remainder of quarter 2 and future planned audits in quarter.

Audit actions update

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

Anti-Fraud and Corruption

5. There have been no investigations undertaken in quarter 2 of 2023/24.

Advisory services

6. Advisory work discussions have continued in quarter 2 for Adult Social Care Debt and Transport Services. This work involves challenging current work practices to improve controls and reduce potential risk.
7. There has been an increase in the number of requests for advice received by the Internal Audit team. This has included a review of policies and providing guidance on controls. We are responding to these in a timely manner to aid the Directorates in delivering their services.

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. 3 grants have been certified as accurate during the first quarter. Details of certifications are given in Appendix 1.

Staffing

9. A Finance Business Partner and an Audit Officer started their roles at the beginning of September and the Chief Internal Auditor will commence employment at the beginning of November. It is envisaged that there will be a period of settling in along with mentoring which has been reflected in the quarter 3 work plan forecast.

10. 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

Specific Contact Points for this report

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Kathryn Kenderdine, Audit and Compliance Manager

Tel: 01905 843096

Email: kkenderdine@worcestershire.gov.uk

Phil Rook, Chief Financial Officer

Tel: 01905 846300

Email: prook@worcestershire.gov.uk

Supporting Information

Appendix 1: Audit Status

Appendix 2: Action Status

Background Papers

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

Audit	Type	Current Milestone	Rating
2023/24-01 - Franche Community Primary School	Assurance	End Audit	Moderate Assurance
2023/24-10 - Worcester Business Central Growth Hub	Certification	End Audit	Certified
2023/24-18 - Midland Net Zero Hub	Certification	End Audit	Certified
2023/24-19 - Transport Grant £200,000	Certification	End Audit	Certified
2023/24-04 - St Joseph's Catholic Primary School	Assurance	Issue Draft Report	Not assessed
2023/24-06 - Malvern Wells C of E Primary School	Assurance	Issue Draft Report	Not assessed
2023/24-20 - Aston Fields Middle School	Assurance	Issue Draft Report	Not assessed
2023/24-02 - Blackminster Middle School	Assurance	End Field Work	Not assessed
2023/24-03 - Cleeve Prior C of E Primary School	Assurance	End Field Work	Not assessed
2023/24-09 - Bus Subsidy (Revenue) Grant	Certification	Start Field Work	Not assessed
2023/24-12 - Procurement Cards - Residential Units	Assurance	Start Field Work	Not assessed
2023/24-14 - Sickness Absence	Assurance	Start Field Work	Not assessed
2023/24-21 - Pension Administration - controls	Assurance	Start Field Work	Not assessed
2023/24-27 - Capital Transport Grant	Certification	Start Field Work	Not assessed
2023/24-23 - Integrated Equipment Store	Assurance	Work Commenced	Not assessed
2023/24-24 - IT Inventory process	Assurance	Work Commenced	Not assessed
2023/24-25 - Information Governance	Assurance	Work Commenced	Not assessed
2023/24-26 - Legacy Systems	Assurance	Work Commenced	Not assessed

Quarter 3 planned audit:

4 * School audits

Capital

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Audit	Rating	Total Number of Actions	Actions Analysis					
			Not Due	Cleared	0-3 months	3-6 months	6-12 months	> 12 months
2020/21-42 - Debt management	Limited	15	15					
2020/21-50 - PY - Asset management - Property * ¹	Moderate	9		6		1	1	1
2021/22-05 - Insourced services – advisory and assurance support	Limited	1	1					
2021/22-06 - Employee starter process	Moderate	8	6	1	1			
2021/22-56 - Employee leaver process	Moderate	4	3	1				
2021/22-71 - Contract review - Ringway	Substantial	4	1	3				
2021/22-75 - Redhill Primary School	Limited	9	8	1				
2022/23-07 - Shrub Hill Governance	Limited	7	5	2				
2022/23-26 - Dodford First School	Limited	15	11	4				
2022/23-27 - Office of the Public Guardian Inspection for Appointees and Deputies	Moderate	11	11					
2022/23-33 - Westacre Middle	Moderate	6		4	1	1		
2022/23-35 - Elmley Castle School	Moderate	8	2	6				
2022/23-37 - Batchley First School	Moderate	7	2	5				
2023/24-01 - Franche Community Primary School	Moderate	5	5					
		109	70	33	2	2	1	1

*¹ Outstanding actions relates to policies which need to be completed

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AUDIT AND GOVERNANCE COMMITTEE

22 SEPTEMBER 2023

RISK MANAGEMENT

Recommendation

- 1. The Committee is requested to review the contents of the report, including the latest corporate risk report identifying corporate risks and mitigating activity.**

Background

2. The aim of this report is to update the Audit and Governance Committee with the latest corporate risk report, highlighting corporate risks and current and proposed controls, and introducing the new Corporate Risk Power BI report.

Current Corporate Risk Report

3. A risk management report continues to be developed using Power BI, the first version of which can be found here [WCC Risk Report CORPORATE](#)
4. An extract of the report is contained in the appendix, showing the corporate overview, and exception reporting for the corporate risks flagged as red, and those flagged as amber and deteriorating, for Q2 2023/24.
5. The new risk register consists of 119 identified risks, with 24 designated as corporate level risks (risks for which the impact is over multiple or all directorates or the required control requires input from multiple or all directorates).
6. Of the 24 corporate risks, eight are categorised as “Service Failure (Statutory or otherwise)”, six are categorised as “Harm / Duty of Care”, four are categorised as “Financial Impact” and four are categorised as “Reputational including scandal or corruption”.
7. Of the 24 corporate risks E&I own eight risks, Chief Executive Unit owns six, COaCH owns four, People and WCF own three.
8. Eight of the corporate risks are flagged as red, with a current risk score (impact x likelihood) of more than 20. Of the 13 corporate risks that are rated amber (score between 10 and 20), one is deteriorating. Detailed information about these nine risks is included in the appendix as an exception report.

Contact Points

Specific Contact Points for this report

Rob Morris, Head of Business Intelligence

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Supporting Information

- Appendix – Corporate Risk Report Q2 2023/24

Background Papers

In the opinion of the proper officer, there are no background papers relating to the subject matter of this report.

Corporate Risk Report Q2 2023/34

Audit and Governance Committee

22 September 2023

Q2 2023/24 Risk Report

- Overall summary of corporate risks
- Corporate risks rated as red (score > 20)
 - Detail of each corporate red risk
- Corporate risks rated as amber (score between 10 and 20) and deteriorating
 - Detail of each corporate amber / deteriorating risk

Overall summary of corporate risks

WCC Risk Summary

Risk Matrix

CEU

COaCH

E&I

People

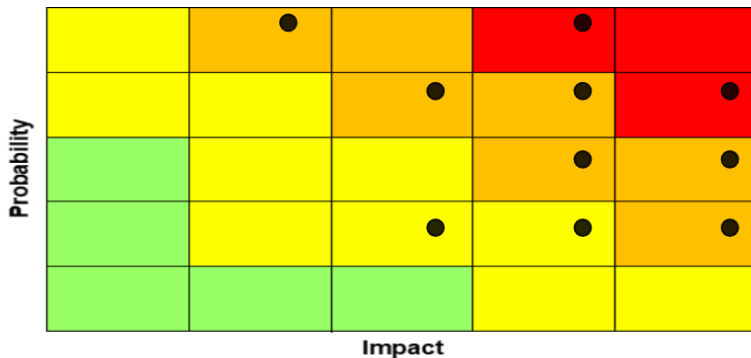
WCF

VIEW GREEN

VIEW YELLOW

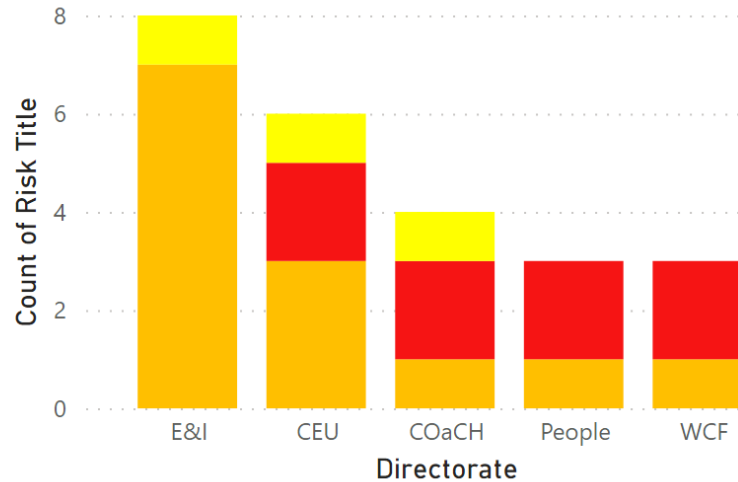
VIEW AMBER

VIEW RED

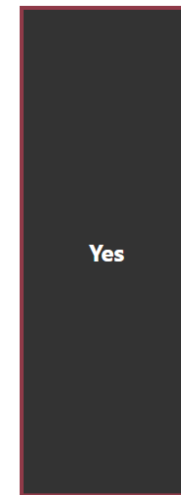


VIEW CORPORATE RISKS

Corporate Risk by Directorate



Corporate RR ?

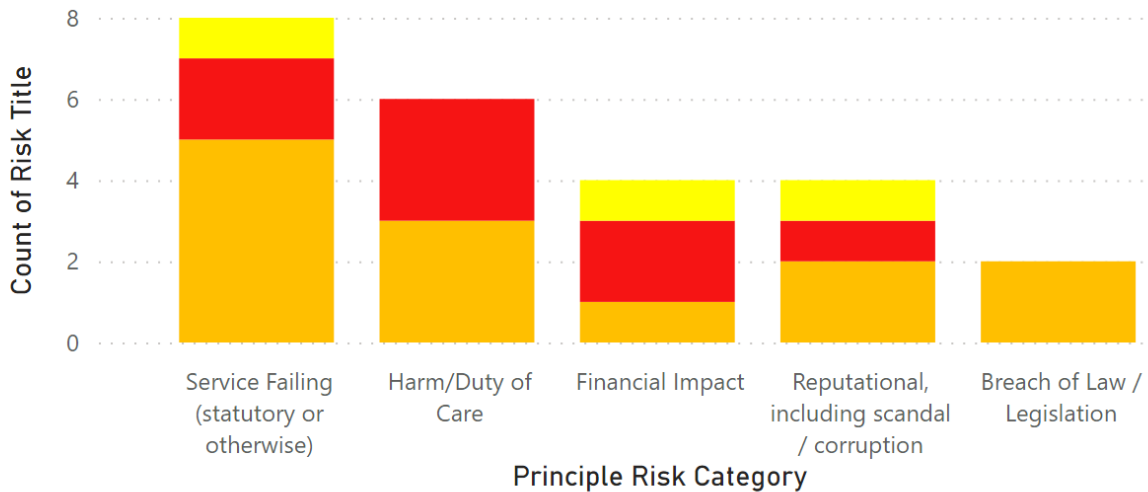


3

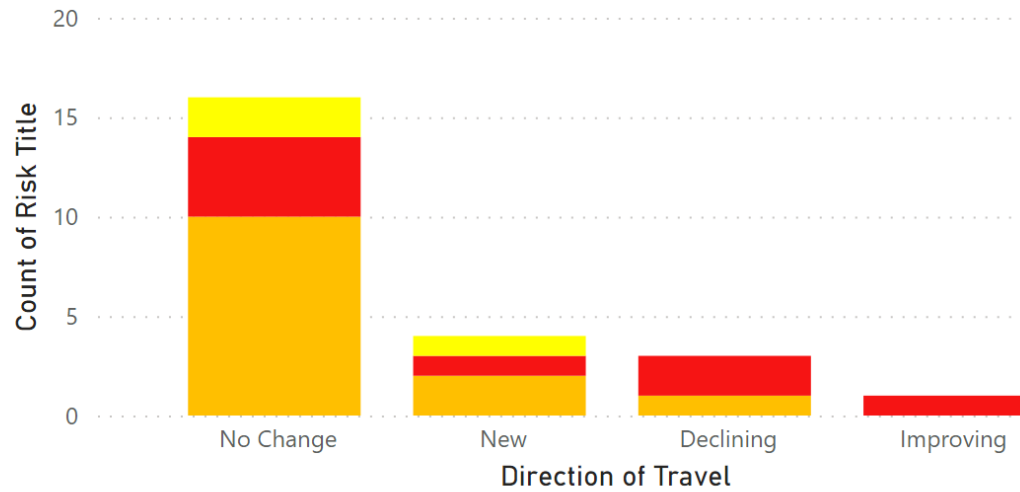
13

8

Corporate Risk by Category



Corporate Risk by Direction of Travel



Corporate risks rated as red

Back

WCC All Risks

Principle Risk Category

- Select all
- Financial Impact
- Harm/Duty of Care
- Reputational, including sc...

Corporate RR?

- Yes
- (Blank)
- No

Service Area

- Select all
- Adult Social Care
- Finance
- HR, OD & Engagement

Direction of Travel

- Select all
- Declining
- Improving
- New

Green

Yellow

Amber

Red

8

Click to re-set selections and view all indicators

Risk Title

Principle Risk Category

Directorate

Service Area

Financial pressure on resources due to increased demand	Financial Impact	WCF	Social Care, AAD, Home to School Transport and High
Market instability	Financial Impact	People	People Commissioning
Increase in demand in Safeguarding	Harm/Duty of Care	People	Adult Social Care
RAAC	Harm/Duty of Care	COaCH	Transformation and Commercial
Serious harm or death of a child or young person	Harm/Duty of Care	WCF	Safeguarding and Social Care
Councillors not conducting themselves in an appropriate manner	Reputational, including scandal / corruption	COaCH	Legal and Governance
Ability to maintain positive Employee Relations	Service Failing (statutory or otherwise)	CEU	HR, OD & Engagement
Financial Instability	Service Failing (statutory or otherwise)	CEU	Finance

Exceptions – corporate red risks

Financial pressure on resources due to increased demand

[Home](#)
[Previous Screen](#)

Owner

Chris Bird

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

Overspend on placements due to increased demand on Children's Placements and Home to School Transport, and cost pressures in the market place as a result of inflation and capacity

Service Area

Social Care, AAD, Home t...

Directorate

WCF

Risk Category

Financial Impact

Overall Score

20

Direction of Travel

Declining

Date Risk Identified

Friday, September 10, 2...

Review Date

21/08/2023

Score After Mitigation

20

Current Controls

WCF budget performance is typically good, having achieved surplus' for years ending 20,21,22. In the financial year ending March 2023 the company has a deficit which highlighted the ongoing wider financial pressures on children's services. These are national pressures not unique to Worcestershire, and there are two drivers demand for services and inflation. It is expected that these pressures will remain over the medium term financial period requiring even tighter budgetary control and mitigating actions.

Further Actions Identified

Regular detailed budget monitoring to the Board and Council. An internal audit review of our end to end process concluded that WCF management is efficient, effective and robust, the limiting factor is funding allocation from the Council which competes with other priorities.

Market instability

[Home](#)[Previous Screen](#)**Owner**

Rebecca Wassell

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

Significant upward pressure on costs (energy, food, staffing) allied to lower levels of occupancy than pre-Covid will lead some providers to give notice on some WCC funded residents and/or lead some homes to close

Service Area

People Commissioning

Directorate

People

Risk Category

Financial Impact

Overall Score

20

Direction of Travel

No Change

Date Risk Identified

Thursday, June 01, 2023

Review Date

21/08/2023

Score After Mitigation

20

Current Controls

The council will open discussions with providers who decide to exit the market to enable them to do so in a supported manner.

Additionally there is a process agreed for reviewing fees which are historically low, where there is no increase in care need.

Discussion and negotiation with providers.

Further Actions Identified

We will be launching invites for providers of older peoples residential care to join a DPS framework that will enable care homes to become "first choice providers". This will assist them in increasing occupancy and recovery of overheads. There is significant overprovision in the older peoples care home market and some consolidation is inevitable.

Increase in demand in Safeguarding

[Home](#)[Previous Screen](#)**Owner**

Kerry McCrossan

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

There is a significant backlog of Safeguarding cases relating to safeguarding which could result in harm to those adults

Service Area

Adult Social Care

Directorate

People

Risk Category

Harm/Duty of Care

Overall Score

20

Direction of Travel

Improving

Date Risk Identified

Thursday, June 01, 2023

Review Date

21/08/2023

Score After Mitigation

10

Current Controls

Investment into the Safeguarding Team to use an external agency to help triage and clear the backlog has begun. The backlog has now reduced from Oct 2022 to April 2023. We have approximately 200 cases remaining unallocated. 13 additional staff members are working additional hours to further reduce. the external project team are also working overtime.

Further Actions Identified

Further investment has been approved by Mark Fitton for 4 more staff, however, these need to be resourced by the organisation, mitigation to move some of the project Team into Triage has also taken place so cases are risk assessed in a timely manner. New safeguarding model agreed requiring formal SLT sign off and investment.

RAAC

Home

Previous Screen

Owner

Andy Moran

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

Buildings with RAAC panels not able to be fully used

Service Area

Transformation and Com...

Directorate

COaCH

Risk Category

Harm/Duty of Care

Overall Score

20

Direction of Travel

Declining

Date Risk Identified

Thursday, September 0...

Review Date

01/01/2024

Score After Mitigation

20

Current Controls

Precautionary measures to vacate areas with RAAC until surveys and mitigation works undertaken

Further Actions Identified

Options appraisals will be undertaken to determine the long term solution.

Serious harm or death of a child or young person

[Home](#)[Previous Screen](#)**Owner**

Adam Johnston / Emma Brit...

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

Safeguarding risk because of serious harm or death of a child or failure to safeguard children. Reputational risk as a result of poor inspection or service breakdown.

Service Area

Safeguarding and Social ...

Directorate

WCF

Risk Category

Harm/Duty of Care

Overall Score

20

Direction of Travel

No Change

Date Risk Identified

Sunday, November 01, ...

Review Date

21/08/2023

Score After Mitigation

20

Current Controls

Safeguarding issues have been monitored and managed through the WCF Performance Board and through partnership working with the Worcestershire Safeguarding Children Partnership (WSCP) and other local strategic partners. Quality Assurance measures are in place, and safeguarding arrangements and activity have been monitored by the WSCP Safeguarding Practice Review Board and Get Safe Partnership Board. An Ofsted inspection on FFD highlighted excellent practice and procedure on WCF quality assurance framework. Recent national coverage of a death of a child covered in the media increases the risk of higher demand on Worcestershire's FFD due to public and professional anxiety.

Further Actions Identified

Robust and Significant quality assurance process in place from and full end to end service perspective

Councillors not conducting themselves in an appropriate manner

Home

Previous Screen

Owner

Hazel Best

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

Complaints from the public, officers and/or councillors about councillor conduct

Service Area

Legal and Governance

Directorate

COaCH

Risk Category

Reputational, including scandal / corruption

Overall Score

20

Direction of Travel

No Change

Date Risk Identified

Monday, June 12, 2023

Review Date

22/08/2023

Score After Mitigation

15

Current Controls

Member training on code of conduct

Further Actions Identified

Council adopted the LGA code of conduct for members at its annual meeting on 18.06.23. All members will be offered refresh of code of conduct training in June/ July 2023. (Two sessions) Track complaints to identify any themes developing and refer to the Standards and Ethics Committee for consideration

Ability to maintain positive Employee Relations

Home

Previous Screen

Owner

Rich Taylor

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

IF: the council is unable to negotiate or comply with employment legislation or our recognition agreement with our recognised trade unions THEN: this could result in legal and/or possible industrial action with a resultant financial and reputational impact and an inability to meet service demands

Service Area

HR, OD & Engagement

Directorate

CEU

Risk Category

Service Failing (statutory or otherwise)

Overall Score

20

Direction of Travel

New

Date Risk Identified

Monday, June 19, 2023

Review Date

22/08/2023

Score After Mitigation

6

Current Controls

Relationships continue with recognised unions to maintain communication, but national pay bargaining is maintained across all authorities

Further Actions Identified

Other methods of local considered reward and maintenance of clear responsibilities

Financial Instability

Home

Previous Screen

Owner

Phil Rook

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

Risk that expenditure is in excess of income and there is a predicted or actual overspend in excess of funding available

Service Area

Finance

Directorate

CEU

Risk Category

Service Failing (statutory or otherwise)

Overall Score

20

Direction of Travel

No Change

Date Risk Identified

Sunday, May 01, 2022

Review Date

30/08/2023

Score After Mitigation

15

Current Controls

Regular budget monitoring, review of reserves, forecasting with budget managers on high risk areas each month

Further Actions Identified

Escalation of issues to CEX and SLT

Corporate risks rated as amber & deteriorating

Exceptions – corporate amber / deteriorating risk

Back

WCC All Risks

Green **Yellow** **Amber** **Red**

1

Click to re-set selections and view all indicators

Principle Risk Category

- Select all
- Reputational, including sc...

Corporate RR?

- Yes

Service Area

- Select all
- Transformation and C...

Direction of Travel

- Select all
- Declining
- New
- No Change

Risk Title	Principle Risk Category	Directorate	Service Area	Risk Owner	Appe
Loss of Resident Viewpoint Panel	Reputational, including scandal / corruption	COaCH	Transformation and Commercial	Rob Morris	Yes

Loss of Resident Viewpoint Panel

[Home](#)
[Previous Screen](#)

Owner

Rob Morris

Service?

Yes

Directorate?

Yes

Corporate?

Yes

Risk Description

Loss of confidence / representation in significant resident engagement activities - in particular reduction in residents signing up to the Viewpoint Panel, or reduction in the number of responses to key engagement activities

Service Area

Transformation and Com...

Directorate

COaCH

Risk Category

Reputational, including scandal / corruption

Overall Score

10

Direction of Travel

Declining

Date Risk Identified

Tuesday, March 07, 2023

Review Date

29/08/2023

Score After Mitigation

8

Current Controls

Occasional recruitment to the panel. No significant investment in panel management.

Further Actions Identified

Ongoing promotional activity / social media campaigns / promotion of the panel at other Council engagement events (e.g. resident roadshows).
Investment in broader panel management and recruitment approach.

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AUDIT AND GOVERNANCE COMMITTEE 22 SEPTEMBER 2023

TREASURY MANAGEMENT UPDATE QUARTER 1 2023-24

Recommendation

- 1. The Chief Financial Officer recommends that the Treasury Management Update Report 2023-24 be noted.**

Background

2. In accordance with our Treasury Management Strategy and in compliance with CIPFA's Code of Practice on Treasury Management. This report highlights the treasury management activities of the Council. It outlines the economic background against which decisions have been made. It also provides an update on the performance of the treasury management function and covers the following, for the first quarter of the 2023-24 financial year:

- An economic update
- A review of the Council's investment portfolio
- A review of the Council's borrowing strategy
- A review of compliance with Treasury and Prudential Limits

3. The Treasury Management Strategy for 2023-24 was approved by Full Council on 16 February 2023 with further update reports scheduled for during the remainder of this financial year.

Economic Update

4. The Council's in-house team of qualified finance staff monitor and maintain the Council's Treasury Management activity in line with the Council's Strategy. The Council employs Link Group as its treasury management advisor and officers hold regular meetings with them concerning existing and future potential economic circumstances regarding both investments and short/long-term borrowing.

5. The Bank of England raised its policy interest rate by 50bps to 5.0% during its June meeting, marking the 13th consecutive hike. This decision surprised market expectations of a smaller 25bps rate hike and pushed borrowing costs to their highest level since the 2008 financial crisis, all to combat persistent inflation.

6. The British economy contracted 0.4% year-on-year in May, the first decline since 2021, compared to a 0.5% expansion in April and market forecasts of a 0.7% drop. Month-on-month, the British economy contracted 0.1% month-over-month in May, following a 0.2% growth in April and compared to forecasts of a bigger 0.3% decline. Moreover, the British economy showed no growth in the three months to May, the

weakest performance since the three months to November 2022, but better than market forecasts of a 0.1% drop.

7. The consumer price inflation in the United Kingdom fell to 7.9% in June 2023, below both the previous month's figure of 8.7% and market expectations of 8.2%. The rate remained significantly higher than the Bank of England's target of 2.0%. The core rate, which excludes food and energy, fell to 6.9% in June 2023, below both market expectations and May's figure of 7.1%

8. The number of people in work in the United Kingdom went up by 102,000 in the three months to May, below market forecasts of a 125,000 rise and following a 250,000 advance in the previous period. Consequently, the unemployment rate rose to 4.0% in the three months to May from 3.8% April, the highest level since the last quarter of 2021 and above market expectations of 3.8%. The three-month average of job vacancies fell for the 11th consecutive month in April, from 1.114m in March to 1.083m. The number of people claiming for unemployment benefits in the UK rose by 25,700 in June.

9. Average weekly earnings, including bonuses in the UK, rose by 6.9% y/y in the three months to May from 6.5% in the three months to April, the highest increase since the three months to August 2021, and above market forecasts of 6.8%. Meanwhile, regular pay which excludes bonus payments, rose 7.3% y/y in the three months to May of 2023, the same seen last month and the fastest growth rate seen outside of the Covid-19 pandemic.

Interest Rate Forecast

10. The Council's treasury advisor, Link Group, has provided the following forecast in **Table 1** below:

Table 1: Interest Rate View – Link Group

Link Group Interest Rate View 26.06.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

11. Link Group Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2023 and 2024.

Council's Investment Portfolio as at 30 June 2023

12. The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council in February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being Security of capital, Liquidity, Yield. The Council will aim to achieve the optimum return (yield) on its investments aligned with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions.

13. The current investment counterparty criteria selection approved in the TMSS is being met. Officers continue to closely monitor the credit ratings, and other measures of creditworthiness of the counterparties to ensure that only appropriate counterparties are considered for investment purposes.

Investment balances

14. The average level of funds available for investment purposes during the quarter was **£73m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

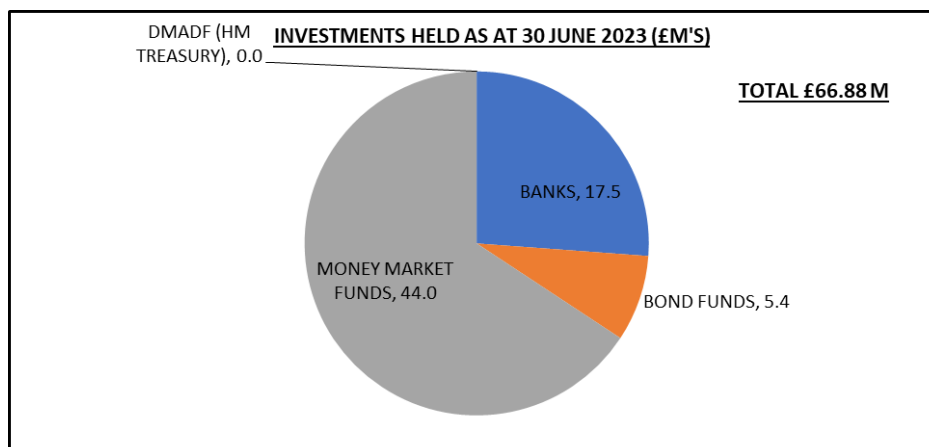
15. The Council holds investments with the Debt Management Office (DMO), which is part of HM Treasury, as well as highly rated Money Market Funds, highly rated bond funds and with our bank, Barclays. In addition, from time to time, when the Cashflow Forecast indicates that our cash balances will support it. The Council places investments of up to 1 year with other local authorities.

16. There has been significant press coverage around some local authorities, who have taken these types of deposits and used them to fund their own longer-term commercial investments, some of which have been less than successful. CIPFA has now updated its Prudential Guidance to attempt to minimise this risk going forward. The Council continues to follow this guidance and practice.

17. As security of funds is the first key element of our investment strategy it should be noted that to date, none of these authorities have defaulted on their debt (our investment is their debt). In all cases the UK Government has stepped in to provide support and liquidity. There is no reason to believe that this situation will change, and therefore most Local Authorities will be rated on a par with the UK Government by rating agencies. To date all of Worcestershire CC's investments have been repaid with full interest.

18. Against this backdrop, the Council held £66.88m of investments as at 30 June 2023 (£77.48m at 31 March 2023) and the average investment portfolio yield for the first 3 months of the year is 4.32% against a benchmark (7-day LIBID) of 0.06%. Gross income from treasury investments for the first 3 months of the financial year was £0.8m.

19. A summary of Investments held as at 30 June 2023 is included in the chart below.



20. The investment portfolio of £66.88m as at 30 June 2023 was diversified across Money Market Funds, the Government’s Debt Management Account Deposit Facility, Strategic funds and in highly rated UK Banks. The Council uses AAA rated Money Market funds to maintain short term liquidity.

21. The Council benchmarks its investment performance against a cohort of local authorities and against other County Councils, who use Link as their treasury advisers.

22. **Table 2**, below, is a summary of the Council’s performance against those benchmarks. It illustrates that the Council is outperforming the benchmarking group and the English Counties as at 30 June 2023.

23. It also shows that the Council is investing for shorter terms, with higher credit rated organisations, but still achieving higher returns. Thanks mainly to the impact of higher bank rates feeding into Money Market Funds sooner than would happen if more fixed term investments were being used.

Table 2: Quarterly Benchmarking Report – Link Group

CATEGORY	WCC	Group	Counties
Weighted Average Rate of Return (WARoR)	4.41%	4.14%	4.35%
Weighted Average Time to Maturity – days (WAM)	10	117	127
Weighted Average Total Time - days (WATT)	10	228	242
Weighted Average Credit Risk (WA RISK)	1.82	2.59	2.51

24. It is proposed to continue with this successful strategy for the remainder of this financial year, and then, cashflow forecast allowing, look to lock into the higher rates, by placing part of the investment portfolio into fixed term investments.

25. Cashflow will remain the key driver to placing those investments and the Council will always ensure the security and liquidity are considered before yield.

Council’s Borrowing Strategy

26. The Council’s borrowing activity for the first 3 months of the financial year can be summarised as follows:

- a. **£35m** of new loans were taken between 1 April and 30 June 2023.
- b. **£41m** of debt matured between 1 April and 30 June 2023.
- c. There was **£547m** of debt outstanding on 30 June 2023 at an average rate of 3.52%.
- d. Based on the latest Capital Programme update, the forecast for 31 March 2024 is **£584m**.

27. Whereas the Council has previously relied on the PWLB as its main source of funding, with a potential change in rates forecast it will now need to consider alternative cheaper sources of borrowing.

28. There is a very active Local Authority to Local Authority market, which provides the opportunity to borrow short term (1 month to 3 years) from other Local Authorities, at rates which are lower than those available from the PWLB.

29. The Council should always be mindful that the underlying purpose of our borrowing requirement is to support the Capital Programme, which generally includes the creation or improvement of assets with asset lives of between 5 and 50 years. It is therefore best practice to seek out borrowing on a similar basis. However, when revenue budgets are tight and interest rates are high, it is also important to identify ways in which the council can minimise debt interest costs. Provided it is carried out in moderation, borrowing a proportion of the debt pool on a short-term basis can provide interest cost savings, without exposing the authority to excessive liquidity and interest rate risk.

30. It is important to differentiate between: -

- the underlying need to borrow which is assessed through the Capital Strategy, Capital Programme and Treasury Management Strategy Statement, which consider and include, cost benefit analysis, asset value assessments, due diligence, and affordability considerations amongst other factors, and
- sources of finance, be those PWLB, Banks, other Local Authorities, which are assessed on credit rating, reliability, and interest rates.

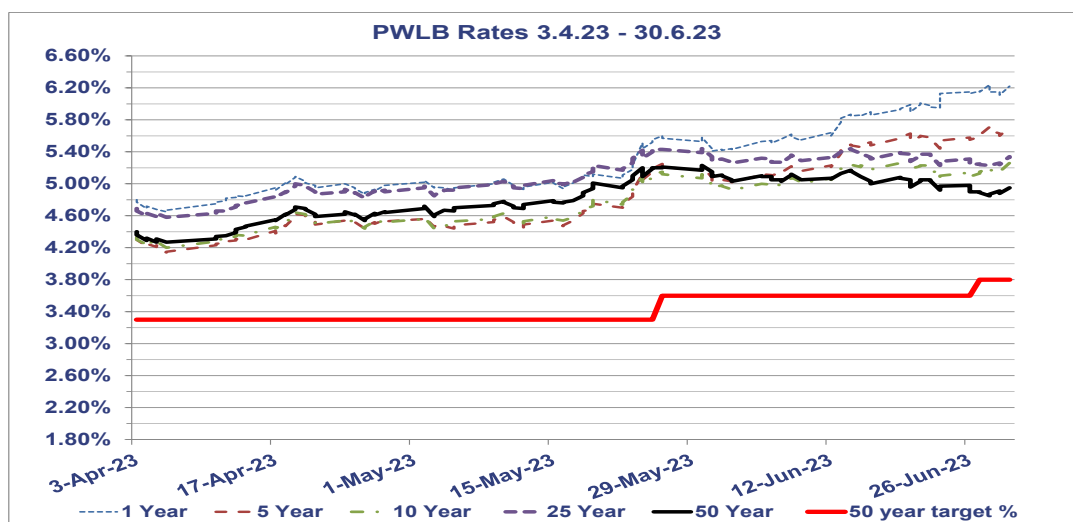
31. It is possible that the Municipal Bond Agency will be offering loans to the wider local authorities' market in the future. This Authority may make use of this new source of borrowing as and when appropriate.

32. The Authority also minimises debt costs by delaying the externalisation of its debt. This is known as internal borrowing or under borrowing. The Authority effectively manages down its cash and investment balances before seeking to take on further external debt. This strategy is highly effective at reducing interest costs (especially as borrowing rates tend to be higher than investment rates, which creates a cost of carry for the Authority), however, at some point, if the planned capital expenditure takes place, or the reserves balances fall, the cash and investments alone cannot fund it. At that point further external debt is taken. The Council manages our cash flow with great care and attention, to minimise the liquidity and interest rate risks involved in applying this strategy, whilst maximising revenue savings.

Risk

33. Borrowing rate estimates provided by our Treasury Advisers for this financial year to date can be seen in chart 1, below and reflect the steady rise in rates so far. Rates are forecast to continue to increase in the short term, but are thought to be nearing their peak, but may remain inflated for the next year or so. Which is good for investing, but not for borrowing. For this reason, the risk mitigation is to continue to borrow on a short-term basis until rates fall back.

Chart 1: borrowing rates 3 April 2023 to 30 June 2023



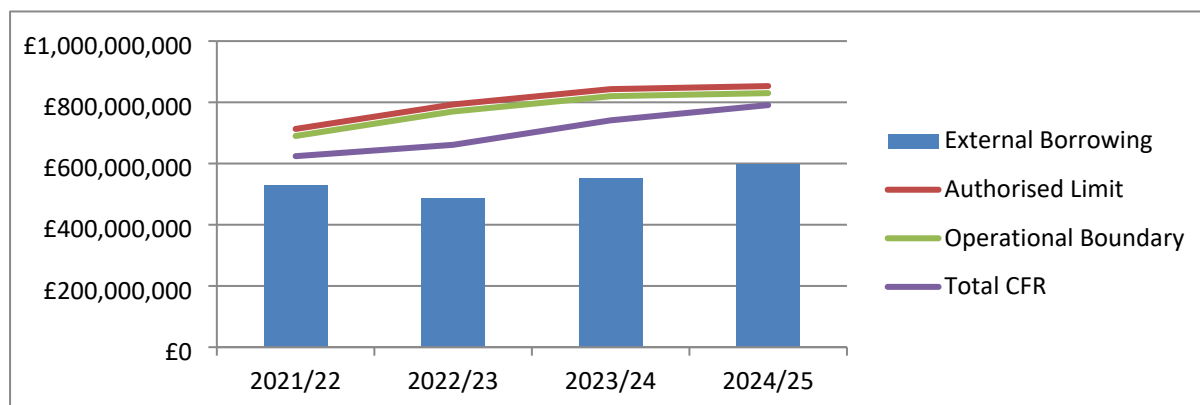
Compliance with Treasury and Prudential Limits for 2023-24

34. The Council is well within the Limits for outstanding debt and is projected to remain so for 2023-24.

35. **Chart 2** below shows the relationship between the Authority’s Capital Financing Requirement (CFR - which is the past and future capital expenditure which will be funded through borrowing), the Approved Limit, Operational Boundary and External Borrowing.

36. It illustrates that the projected path of existing external debt remains within both the limits and the CFR.

Chart 2: Relationship between External Debt, CFR and Approved Limits



37. Table 5 below shows the extent to which the CFR has been externalised to date:

Table 5: Breakdown of Debt

Financial Year	2022-23 Actuals (£m)	2023-24 Estimates OE (£M)	2023-24 Estimates RE (£M)	2024-25 Estimates (£M)
CFR	723	763	748	803
External Debt	532	569	583	638
% of CFR	73.6%	74.6%	77.9%	79.5%
Internal Debt	191	194	165	165
% of CFR	26.4%	25.4%	22.1%	20.5%

38. This shows the extent to which external debt has been avoided, however, it does rely on utilising cash backed reserves and investment balances being used. Therefore, should cash backed reserves fall, or cash balances fall, then external borrowing, or reduced expenditure will be required.

39. As mentioned in Paragraph 29 above, borrowing is usually taken to support the Capital Programme and its creation/purchase/improvement of long-term assets. As such you would expect to see a Debt Maturity Profile skewed towards the long end. As you can see below, the Authority has exactly that type of profile.

40. The prudential indicators provide upper and lower limits for borrowing maturity structures. The Forecast Maturity Profile for the Council's debt compared with the those for Borrowing as at the 30 June 2024 is shown in **Table 6** below.

Table 6: The Maturity Profile for the Council's debt as forecast at 31 March 2024

Maturing within	£m	% of Total Debt	% Lower/Upper Limit for Debt
1 year	69.0	11.82	0-25
1 – 2 years	96.2	16.47	0-25
2 – 5 years	24.5	4.19	0-50
5 – 10 years	25.0	4.28	0-75
10 years and over	369.3	63.24	25-100
Total Forecast External Debt	584.0	100.0	

41. The Council remains comfortably within its limits for the Maturity Structure of Borrowing and is anticipated to remain so for the foreseeable future.

42. The Chief Financial Officer and the Cabinet Member with Responsibility for Finance confirm that the management of debt and short-term investments continues to be cost effective.

Contact Points

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Background Papers

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

- Treasury Management Strategy 2023-24

AUDIT AND GOVERNANCE COMMITTEE

22 SEPTEMBER 2023

WORK PROGRAMME

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

1 December 2023

Annual Governance Statement update and Detailed Action Plan
 External Audit – Audit Findings Report
 Annual Governance Statement
 Annual Statutory Financial Statements for the year ending 31 March 2023
 Internal Audit Progress Report 2023/24
 Corporate Risk Report
 Income and Debt Management
 Treasury Management Update including Q2
 Update on outstanding IT Control actions
 (Training Session on Financial Sustainability)

March 2024

Annual Governance - Action Plan Update
 People Directorate – May 2023 Debt Position Statement
 Internal Audit Progress Report 2023/24
 Internal Audit Plan 2024/25
 Corporate Risk Report
 Q3 Treasury Update & Strategy Update
 (Training Session on Internal Audit)

July 2024

Annual Governance Update
 Internal Audit Annual Report 2023/24
 Draft Annual Governance Statement 2023/24
 Draft Annual Statutory Financial Statements for the year ending 31 March 2024
 External Audit – Audit Plan 2023/24 and Informing the Risk Assessment 2023/24
 Internal Audit Progress Report 2024/25
 Corporate Risk Report
 Income and Debt Management
 Treasury Management Report and update Q4
 (Training Session on Business Continuity)

September 2024

Annual Governance Update
Internal Audit Progress Report 2024/25
Corporate Risk Report
Quarter 1 Treasury Management Update
(Training Session – Risk Management)

Contact Points

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Background Papers

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