

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setting process and the publication of the audit report means that the specifics of this recommendation are somewhat out of date by the time the recommendations are put in front of the Committee.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

Phil Rook, Chief Financial Officer

Tel: 01905 846300

Email: prook@worcestershire.gov.uk

Chris Bird, Chief Accountant

Tel: 01905 846994

Email: cbird1@worcestershire.gov.uk

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.