

## **Somerset West and Taunton Council**

### **Audit, Governance and Standards Committee – 7 December 2020**

#### **Financial Control and Reporting Procedures**

**This matter is the responsibility of Councillor Henley, Corporate Resources**

**Report Author: Emily Collacott, Lead Finance Business Partner (Deputy S151 Officer)**

#### **1 Purpose of the Report**

- 1.1 To provide members of the Committee with an update regarding financial reporting arrangements and progress addressing audit recommendations from key control reports.

#### **2 Recommendations**

- 2.1 Members review and note the progress in improving financial control and reporting arrangements.

#### **3 Risk Assessment**

- 3.1 Effective financial controls are among the key elements of the corporate governance framework and business control environment. A number of key control audits were undertaken as part of the 2019/20 audit plan. The testing largely focussed on the first 6-9 months of last year, where the Council's controls and processes were particularly susceptible to the impact of organisational disruption, including a high number of staff changes and the transition of systems and procedures to the new Council which was formed on 1 April 2019. The audits undertaken reported a range of risks including some weaknesses in the control environment, with the internal auditor reporting only 'partial assurance'.
- 3.2 The auditor's partial assurance definition is: "In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives."
- 3.3 The financial key controls audit assurance and number of audit recommendations for each area is summarised below:

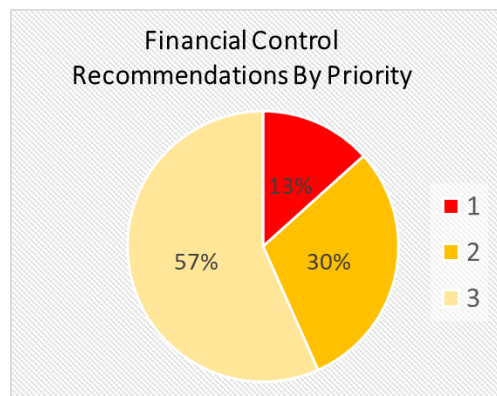
Key Control Audit	Completed	Final Audit Report Issued	Assurance	Priority			Total
				1	2	3	
Payroll System	2019/20 Q2	December 2019	Partial	0	0	5	5
Banking arrangements	2019/20 Q3	December 2019	Partial	0	1	3	4
Debtors	2019/20 Q3	February 2020	Partial	2	2	0	4
Treasury Management	2019/20 Q3	February 2020	Partial	0	1	2	3
Main Accounting including Budget Responsibility	2019/20 Q3	April 2020	Partial	1	3	1	5
Creditors	2019/20 Q4	August 2020	Partial	1	2	6	9
<b>Total Recommendations</b>				<b>4</b>	<b>9</b>	<b>17</b>	<b>30</b>

Note:

Priority 1: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 2: Important findings that need to be resolved by management.

Priority 3: Findings that require attention.



3.4 The control weaknesses identified led to heightened risks last financial year, with the Senior Management Team reflecting this within the Council's Corporate Risk Register.

3.5 The above 6 key control audits were among 26 audit reviews undertaken for the 2019/20 Audit Plan, and contributed to the Internal Auditor presenting an overall partial assurance within his Annual Opinion Report presented to the Committee on 8 June 2020.

#### 4 Background and Full details of the Report

4.1 As summarised in the Risk Assessment above, a number of key control audits were undertaken as part of the 2019/20 Audit Plan. Six of the key controls reviewed covered a range of areas within the financial control framework, and each reported a partial assurance opinion from the internal auditor.

4.2 The number of control risks identified is disappointing, but is considered largely a symptom of major organisational disruption and change in ways of working and that the testing evidence largely related to the first 6 months of operation of the new Council. This has affected organisational capacity, with a focus on stabilisation and improvement including the further change to a directorate operational structure. Important factors for last financial year's accounts were resolved for the end of the financial year, and significant progress has been made this year to resolve a number of ongoing process improvements. The timeline for addressing these has been somewhat affected by the impact of COVID response on organisational capacity. Additionally the leadership team has prioritised a strong focus on improving rigour in our governance and controls across the board with a significant programme of work to review and strengthen these.

4.3 Whilst good progress has been made in addressing the majority of issues identified across the various financial control audits, work is ongoing in some areas to ensure these are all fully addressed. This report focusses on the Priority 1 and Priority 2 recommendations as reflecting the greater degree of concern reported by Internal Audit.

4.4 Appendix A provides a summary of the Priority 1 and Priority 2 audit findings and a position statement for each. The majority of agreed actions to mitigate the recommendations made by the internal auditor have been completed. However further

work is ongoing or scheduled to fully address some of these. It is fair to say that the organisational priorities have been adapting since February 2020 due to COVID, which has slowed down progress in some areas due to competing priorities against officers' capacity. Nevertheless, good overall progress has been made to mitigate the risks and address the issues raised.

## **5 Main Accounting**

- 5.1 There were five recommendations within the debtors audit report, with 1 at Priority 1, and 3 at Priority 2, and 1 at Priority 3.
- 5.2 The single Priority 1 recommendation focussed on concerns about budget holders not managing their budgets and possibly not reporting variances. The responsibility for controlling and managing budgets sits with budget holders, with support and advice from finance specialists (accountants). However, the finance officers also have a key role in coordinating the budget monitoring process and reporting the overall position to leadership – informed by information from budget holders and assurance activity undertaken within Finance.
- 5.3 Last year there were gaps in continuity of budget ownership through staff changes, compounded by staff changes and reduced capacity within the finance service as a result of transformation. Training was available to budget holders but not well attended. Finance officers reviewed higher risk areas where there were gaps in reporting to contribute to financial reporting to senior management, however capacity constraints limited the assurance this provided. Reporting was also made more difficult with the combination of budgets from the predecessor councils (which were not aligned previously) reorganised to reflect the organisation design created through transformation which departed from commonly used 'service budgets' to more generic arrangements under the new model.
- 5.4 This year, to mitigate this risk and strengthen financial control we have:
  - a) Reorganised budgets to reflect the directorate structure implemented from April 2020.
  - b) Ensured there is clearly defined responsibilities with nominated budget holder and finance officer for every cost centre.
  - c) Updated the purchasing delegations within the finance system (E5) to reflect the new cost centre structure and management structure.
  - d) Reorganised staffing / agency budgets to fully align with the new directorate structure.
  - e) Recruited additional capacity within the finance service, increasing the number of finance business partners from 3 to 4 – one for each Directorate.
  - f) Reshaped the finance service so that each finance business partner has a finance case manager supporting them and the directorate – building capacity and knowledge resilience into the service
  - g) Developed new budget monitoring reports (i.e. 'management accounts') to clearly present budgets, actuals and forecasts for each cost centre, which can be summarised by cost centre, service area, Assistant Director, Director.
  - h) Increased the frequency of reporting with budget holders and directors required to report against their budgets every month (was bi-monthly last year), which is consolidated into a monthly summary report to the SMT Performance Board. We have also increased the frequency of reporting to committee to quarterly (was every 4 months last year).
  - i) Directors given clear accountability for budgets in their directorates by the Chief

Executive.

- j) Directors have led work by their Assistant Directors and other budget holders, together with support and advice from their finance business partners, to work through their budgets in detail to ensure all costs and income are fully aligned and understood, and underlying budgets represent reasonable estimates for each cost centre.
- k) Directors meet with their Assistant Directors and finance business partner on a monthly basis to discuss their directorate's monthly budget monitoring position.

5.5 The updated reporting process will continue to be refined based on feedback from budget holders and finance officers, to ensure the information fully meets the needs of budget holders and senior officers.

5.6 The work undertaken this year has focussed on ensuring there is clear accountability and responsibility for all budgets and reserves, and rebuilding knowledge and understanding of the financial resources allocated for each service. This is important to underpin the stabilisation of financial management following a number of staffing changes both in services and in the finance team. This work will continue, with priorities including development of the finance business partnering roles and service, and delivery of further training and support for budget holders.

5.7 The Priority 2 recommendations related to

- Establishing a process to reconcile transactions between the Open Contractor (OC) system and general ledger in the finance system. The same recommendation was included within the Debtors audit report as a Priority 1 issue.
- In addition, at the time of audit the cost centre code mapping within OC needed to be updated to reflect the new directorate cost centre structure, to ensure costs were allocated to the correct cost centre.
- Confirming opening balances are correct on the balance sheet for 2019/20 within the ledger.

5.8 Opening balances were fully reconciled as planned – following the sign off of the audited accounts and ensuring balances were mapped from the predecessor Council's finance systems to the new balance sheet codes for SWT. Coding structures for the revenue budget have been amended during 2020/21 and whilst it is not possible to overwrite codes already entered into OC, new items are created using the new codes.

5.9 Work to fully reconcile the open contractor with the General Ledger is ongoing. Resources needed to complete this were focussed in the first half of this financial year on the planned upgrade of the E5 system, updating E5 coding, developing budget monitoring and budget creation processes, and the processes for implementation a range of top priority COVID measures such as robust processes and reporting for business grants and more recently test and trace and lockdown restrictions grants. It is evident the interaction between OC and the General Ledger is complex and complicated, making a full and efficient reconciliation difficult to achieve. The aim is to resolve the process for the current financial year by the end of December 2020, and then to consider and develop simpler arrangements for next financial year.

## **6 Creditors**

6.1 There were nine recommendations within the debtors audit report, with 1 at Priority 1, and 2 at Priority 2, and 6 at Priority 3. Although early draft of the report was shared with key officers around the end of the financial year, the final audit report was not published

until August 2020. This reflected the significant reprioritisation of capacity to respond to COVID emergency measures, both within the Council and within the audit team. Capacity was directed in particular to streamline the creditor payments process to ensure suppliers were paid quickly (average < 5 days), and developing and processing a huge volume of COVID grant applications and payments to businesses.

- 6.2 The Priority 1 risk related to a weakness in the verification of bank details when supplier accounts are created, and some instances of duplicate supplier accounts being created which increases the risk of fraud or error. Prompt action was taken to improve the verification process, seeking to address the issue. Since that time we have seen and accessed new fraud/error prevention processes through the COVID grants assurance process, and this will be explored for wider application to further strengthen bank details verification. Development of reporting to identify duplicate supplier accounts has been delayed due to other priorities however manual processes are used to minimise this risk.
- 6.3 The Priority 2 recommendations relate to development of exception reporting to support payment runs and enable assurance checks where low value payments are processed with limited segregation of duties. Work to address these recommendations is in progress with the aim of resolving by end of December 2020.

- 6.4 3 of the Priority 3 recommendations are completed with 3 items to be resolved.

## **7 Debtors**

- 7.1 There were four recommendations within the debtors audit report, with 2 at Priority 1 and 2 at Priority 2.
- 7.2 The Priority 1 recommendations related to
- Establishing a process to reconcile transactions between the Open Contractor (OC) system and general ledger in the finance system.
  - Ensuring all income for 2019/20 is billed, as the total income billed for DLO related services for the period April to October 2019 was lower than the same period for the previous year.
- 7.3 The position regarding OC is covered above under the Main Accounting audit (paragraphs 5.7 – 5.9)
- 7.4 The billing of income during the first period of last financial year had fallen behind through the organisational disruption and changes in roles and responsibilities. A detailed review was undertaken led by the then Head of Customer, and a detailed update reported to this Committee in early 2020. A significant amount of reassurance work was undertaken to analyse the reasons for the differences in income billing during the first half of the year. This was in part due to delays in billing, and the Income and Debt Management Team worked with relevant services to ensure billing was up to date as quickly as possible, and before the end of the financial year. There were other valid reasons for a reduction total income, through the elimination of billing between the two predecessor councils for shared services costs as no longer application following the inception of SWTC, and also where contracts ended for works supplied to third parties. A detailed suite of reports has been maintained this year to provide assurance that billing is up to date, with the Income and Debt Management Team working with services to address apparent variances.

## **8 Payroll**

- 8.1 There were five Priority 3 – low risk – recommendations related to payroll process. These related primarily to ensuring procedure notes are up to date and relevant staff receive training / reminders and adhere to processes. All agreed actions have been completed.

## **9 Banking Arrangements**

- 9.1 There were four recommendations within the banking arrangements audit report, with 1 at Priority 2 and 3 at Priority 3.
- 9.2 The Priority 2 recommendation relates to the banking service contract which has rolled over beyond its agreed term. The audit recommendation was to 'start the procurement process'. This is in progress however the issue will be fully addressed when the procurement process is completed. Progress has been slower than initially planned as priorities have been adjusted due to COVID and stretched resources due to the volume of procurement activity required to be supported across the Council, however it is expected this matter will be concluded in early December 2020.
- 9.3 The actions to address the Priority 3 lower risk recommendations are all complete / closed.

## **10 Treasury Management**

- 10.1 There were three recommendations within the treasury management audit report, with 1 at Priority 2 and 2 at Priority 3. Although the recommendations were few, the assurance opinion fell just below 'reasonable' with only 'partial assurance' reported. The recommendations related to bring two control reconciliations up to date, and updating and creating procedure notes. No errors have been reported, however these controls are designed to mitigate the risk of undetected errors occurring in future.
- 10.2 The reconciliations were all brought up to date to fully support the end of year balances for annual accounts and year end reports, completing the action required for this recommendations to support the end of financial year position.
- 10.3 Work to complete the update of procedure notes is planned to be completed by the end of December 2020. This will be helpful to underpin the resilience of the processes in future, however this is considered a lower risk because we have several very experienced officers undertaking this work in practice, who are also provide training and guidance to less experienced colleagues undertaking this work.

## **11 Conclusion**

- 11.1 Overall, good progress has been made in resolving many of the items reported through last year's audit plan, with progress in some areas limited due to COVID and other competing priorities for management and services. Despite the capacity challenges there is a determination to ensure all weaknesses are resolved efficiently and assurance levels are improved. It is important to strike a proportionate balance of control and risk, prioritising systematic/process led controls wherever possible so that the cost of the maintaining the control does not outweigh the risk.
- 11.2 Progress on addressing audit actions is now embedded within the Council's performance management arrangements with progress reported to the SMT Performance Board each month.

**Democratic Path:**

- **Audit Governance and Standards Committee – Yes 7 December 2020**
- **Executive – No**
- **Full Council – No**

**Reporting Frequency: One-off****Contact Officer**

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