

AUDIT COMMITTEE	AGENDA ITEM No. 12
13 JULY 2020	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director Resources	
Cabinet Member(s) responsible:	David Seaton – Cabinet Member for Finance	
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FINANCIAL CONTROLS

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter, Acting Corporate Director Resources	Deadline date: 3 rd July 2020
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. Notes the progress that has been made towards implementing the Financial Improvement Programme (FIP) recommendations made by Grant Thornton following their review of financial controls and procedures during 2019. 	

1. PURPOSE AND REASON FOR REPORT

- 1.1 1. The purpose of this report is to inform the Audit Committee of progress to date achieved by PCC in implementing the range of recommendations made by Grant Thornton following their review of financial controls and procedures. Grant Thornton compiled their report following a survey of practices within PCC and put forward a range of proposals grouped into 20 key areas designed to ensure that PCC are following best practice. PCC then constituted a Financial Controls Board to oversee the implementation of the review. This report is intended to show the progress that has been made and to reassure the Audit Committee that PCC manages its finances through high quality internal controls and is actively working to improve them and follow best practice.
2. There were no fundamental financial controls missing from PCC. All of the recommendations build on processes that were already in place and are designed to move the organisation from a position of strength towards best practice. This is evidenced by successive unqualified audit reports of the financial statements as well as the ISA 260 statements made by our external auditors Ernst and Young LLP.
3. There are 2 appendices to this report:
1. Appendix 1 is the tracker that details the individual recommendations and what actions have been taken to meet those recommendations;
 2. Appendix 2 is a graphical illustration of the progress made in implementing the Grant Thornton report over the last few months.

2. BACKGROUND AND KEY ISSUES

- 2.1 During the early months of the 2019/20 financial year the monthly budgetary control reports were showing a significant projected overspend against the budget. PCC was in a position where it needed to compile a range of cost saving measures to address the situation and to assess its internal controls to give itself assurance that policies decided upon by the management team could be effectively implemented.
- 2.2 The longer term situation also required active steps to be taken as there was an ongoing deficit for future year's budgets from 2020/21 onwards.
- 2.3 At the same time, there was limited capacity within the finance function of the Resources Directorate at a senior level available to carry out a comprehensive review of finance procedures.
- 2.4 Grant Thornton (GT) were engaged to provide the additional capacity required. A major component of their commission being to conduct a thorough review of financial procedures within PCC and through their wide experience of similar organisations provide advice as to how PCC compares with other local authority finance departments and what changes would be required to meet best practice.
- 2.5 The result was that GT produced a report in early autumn 2019 setting out a range of recommendations grouped between immediate and medium-term implementation across 20 broad areas. In the majority of cases, PCC was already operating procedures similar to those proposed. The report mostly sought to take these controls and build on them or to recommend a review of certain areas to ensure that they were working effectively.
- 2.6 These 20 areas were broken down further into 44 separate actions, each requiring some level of active investigation or implementation. The short and mediums term recommendations are attached at Appendix 1 (first two columns). The size and complexity of these proposals varies enormously. The largest is the rewriting of all the financial regulations for PCC, whereas re-establishing a procurement working group was very quickly achieved.
- 2.7 GT stressed that the recommendations were made in a spirit of looking to address particular issues and where the specific proposal proves to be impractical, PCC should seek to achieve the same ends through alternative means unless it is already dealt with through internal controls.
- 2.8 PCC set up a Financial Controls Board swiftly after the report was issued to meet weekly and to oversee the implementation of its proposals. The Board was made up of senior finance staff and chaired by a senior change management consultant.
- 2.9 During the last few months, a great deal of progress has been made in implementing these recommendations and Appendix 1 illustrates the detail of this in tabular form in the final column. Appendix 2 transforms this data into a graph.
- 2.10 Throughout this process, verification has been sought from our Internal Audit department to ensure that they agree with our assessment of the progress that we have made. Similarly, contact was maintained with Grant Thornton to ensure that PCC understood the spirit of each section of the report.
- 2.11 The overall position is that significant progress has been made across all 20 areas of activity: -
- Major tasks have been completed, including:
 - The existing Financial Regulations have been rewritten;
 - A new Scheme of Delegation has been remodelled and separated from the Financial Regulations. These two documents will be put before the Constitution and Ethics Committee in due course;
 - The contracts register has been reviewed and updated;
 - A review of the use of purchase cards was undertaken and procedures were updated. The review found that there was no control issue with PCards;
 - A thoroughgoing review of volatile budgets has been undertaken, continuing with such work implemented in previous years;

- The already established savings strategy emanating from the Finance Improvement Programme has been implemented across PCC, including cross cutting savings.
- More easily achieved improvements have been completed:
 - A procurement working group has been re-established;
 - A monthly contract monitoring report has been drafted for CMT;
 - A clampdown on invoice authorisation without a purchase order has occurred. This is a long standing policy and a review is undertaken periodically to provide reassurance of its effectiveness;
 - Improving the content of the monthly financial reports and establishing updated forums for senior operational and finance staff to meet and discuss them. There has always been an ambition to keep improving these reports and GT provided some helpful ideas around consistency and RAG analysis;
 - Individual budget challenge sessions are held to ensure comprehensive coverage. The role of the Finance Manager has been clearly defined and specified in the new Financial Regulations;
 - This challenge process has been integrated into future budget setting plans.
- A further range of initiatives and recommendations are partially complete and well advanced towards implementation. All of them with a final target date set:
 - A Financial Procedures Manual is in the process of compilation. There is a range of procedures in place, but we are now working towards a library of guides to be found together and in the same format;
 - A review of budget holders in the main accounting system and the Scheme of Delegation is well advanced;
 - A process to address cultural change among budget holders, through training and education and regular appraisal is in development;
 - Great progress has been made in removing finance managers from the approval process;
 - Contract procedure rules in the constitution are in the process of being reviewed and updated;
 - The budget process for future years, already thorough and comprehensive, is being reviewed;
 - Progress has been made towards the enforcement of each budget holder's financial envelope;
 - The implementation of procedures to assess the success of previous year's savings plans are well advanced;
 - Protocols for future savings plans are in hand to ensure that all savings are recurring;
 - The level of member involvement is being reviewed;
 - A dashboard finance report for CMT has been developed and used in the April 2020 monitoring report;
 - A standardised budget holder training pack is in development;
 - The main ledger system is to be upgraded later in the calendar year to include, among other things, improved and standardised reports;
 - Training and communication strategies are in development to establish a clear set of financial values around financial control and accountability and to embed these cultural changes;
 - The potential for the rotation of finance professionals is being explored.

Finally, when the accounts for 2019/20 were closed and the financial statements were compiled, the outturn position showed a break even position. This was a £7m turn-around in position over the financial year. This is a testament to the procedures that were already in place and the work that employees throughout PCC and its partners undertook to maintain financial control.

The Audit Committee is asked to take note of the progress that has been made.

3. CONSULTATION

3.1 This report has been discussed in the Financial Controls Board, and this is the next stage of the process. This work is a fundamental plank of the argument the Council used with the Ministry of Housing Communities and Local Government (MHCLG) to obtain the Capitalisation Direction and is referred to in the 2020/21 MTF5.

To deliver changes set out in this paper, further consultation with JMT is required and then approval through the correct Governance processes as we move back to a more “business as usual” approach from our COVID-19 focus which has been the case since March.

4. IMPLICATIONS

Financial Implications

4.1 Although there are no direct financial implications of this report, the implementation of the revised and tightened process will ensure the Council’s finances are managed to an even higher level than they are now.

Legal Implications

4.2 There are no direct implications in this report. However, implementation of some of the recommendations will require changes to the Councils Standing Orders and as such require approval at the Constitution and Ethics Committee.

Equalities Implications

4.3 No direct equalities implications

Carbon Impact Assessment

4.5 No direct Implications

5. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

5.1 See Appendices

6. APPENDICES

6.1 Appendix 1 – Management Response to GT Recommendations
Appendix 2 – Recommendation Tracker