



## Report of the Director of Finance

Governance & Audit Committee – 9 November 2022

# Finance Directorate: Internal Control Environment 2022-2023

<b>Purpose:</b>	The report presents the Finance Directorate control environment, including risk management, in place to ensure functions are exercised effectively; there is economic, efficient and effective use of resources, and; effective governance to secure these arrangements.
<b>Report Author:</b>	Ben Smith
<b>Finance Officer:</b>	Ben Smith
<b>Legal Officer:</b>	Tracey Meredith
<b>Access to Services Officer:</b>	Rhian Millar
<b>For Information</b>	

### 1. Background and Key Points

- 1.1 The Directorate and the associated Director of Finance role, was created following decision of Council in November 2021, followed by appointment at the end of January 2022. In practice it was separated formally with effect from 1 April 2022 at the start of the new financial year. As such it is the newest directorate and a small one (in net budget terms) having previously been part of the former Resources directorate. It remains closely embedded and linked to the complementary activities of the Corporate Services Directorate, especially so in relation to the financial activities in the service centre the core finances of the Council rely upon (accounts receivable, accounts payable and payroll).
- 1.2 The directorate's initial approach to its own operations is based on how it operated as the major part of the former Resources Directorate. As the directorate has a bearing on whole council activity and finances it also leads on as well as participates in many of the common control processes. This includes:

- Internal Audit provision
- External Audit liaison
- All reports with financial implications
- Budget setting (revenue, capital and HRA)
- Medium (and long) Term Financial Plans
- Treasury Management and Borrowing
- Strategic Financial planning
- In year financial reporting
- Statement of accounts and outturn
- Reviews and recommendations re use of reserves and tax setting

1.3 The assurance framework includes the following key elements:

- Clear strategies, objectives and linkages with:
  - Corporate and other statutory plans
  - Business planning/operational plans
- Robust risk management through:
  - Mapping, monitoring, mitigation and escalation of risks
- Tight internal controls consistent with:
  - Scheme of delegation
  - Standing Orders/Financial Regulations
  - Performance and Financial Monitoring (PFM)
- Reassurance through:
  - Audit
  - Scrutiny

1.4 Key aspects of the Finance Directorate's arrangements include:

- Cabinet Member briefing
- Performance management and budget monitoring (PFM)
- Performance appraisals
- A robust internal control framework with:
  - Clear roles and responsibilities
  - Clear and effective authorisation processes
  - Robust and complete policies and procedures
  - Robust monitoring, reporting and reviewing arrangements
  - Timely identification and mitigation of control weaknesses
  - Staff awareness of procedural rules
  - Promotion of an anti-fraud culture

1.5 Whilst a small directorate in net budget terms its wider operational reach means its activities are highly geared and often complex., It is perhaps no surprise that media reporting on Councils that get into difficulty are currently most often associated by being undone by finances unravelling relatively quickly, proven not to be widely fully understood by stakeholders and members as well as a growing general concern about the overall state of funding for all councils.

To broadly contextualise the scale of gross and net operations directly managed by the Directorate in its own right (rounded broadly and not strictly always comparing exactly like for like)

- Net annual budget excluding CTRS (council tax reduction scheme) £10m+
- Directorate net annual budget including CTRS £30m +
- Local benefits and grants paid out when grossed up for DWP/HB agency activity £100m+
- Annual charge to revenue for capital financing costs managed below line in addition to own service budget £35m+
- Non Domestic Rates (on behalf of Welsh Government) and Council tax collected annually £200m+
- RSG and NDR (from national pool) administered and received annually £400m
- Rolling capital programme managed £400m +
- Pension Fund Managed £2.5bn +

It goes without saying of course that it has a bearing indirectly on all of the finances of the wider organisation, albeit compliance with financial procedures rules and all internal financial control mechanisms, as well as the overriding requirement to live within budgets, are under the personal direction and control of the individual directors.

## **2. Risk Management and business continuity**

- 2.1 Risks within Finance are promptly identified and managed at appropriate levels (corporate, directorate, service, programme/project), and as far as possible mitigated, as part of the service review and planning cycle processes and ongoing self-evaluation. Monitoring is conducted through the Directorate performance management and reporting mechanisms at PFM and programme/project boards with risks escalated as appropriate (with particular focus on 'red' risks).
- 2.2 The corporate online system is used for documenting and managing risks and all risks are evaluated and RAG rated (based on likelihood and impact) and updated at the end of each month. The risk management process is reported to the Audit Committee regularly. It is an expectation that the Finance Directorate is fully compliant with reviewing control measures, risk wording and risk level each month as part of a joined-up approach, particularly with Corporate Services. Finance has responded to the need to improve the quality of control measures with the risk register.
- 2.3 Integrated Impact Assessments (IIAs) are required for the decision making at Cabinet (the executive level). If we identify a policy, change or review that requires a Cabinet decision then an IIA must be completed at the inception stage.
- 2.4 Areas of greatest assessed risk currently include:
- Real terms cuts to public services funding at a time of raised inflation and interest rates and inevitable overspend pressures on all parts of the Council despite Finance itself living within means as a directorate and leading by example

- Lack of coherence between growing national expectations and core funding settlements pan Council
  - Base funding is required rather than ad hoc WG grant initiatives
- Lack of capacity and resilience across Directorate
  - To maintain core statutory and regulatory duties
  - To respond to growing demands and manages financial pressures pan Council
  - Evidenced by growing delays to statutory documents
- Lack of capacity across wider Council services

### **3. Performance management/KPIs**

- 3.1 Finance has a set of high-level strategic priorities that are reviewed on an annual basis. In addition, the Directorate has three overarching Service Plans, one per Head of Service, updated annually at the end of each financial year in line with corporate planning requirements. Priorities identified in the Corporate Plan 2022-2023 Corporate plan - Swansea are reflected in, addressed and delivered through Finance's Strategic Priorities, Service Plans and Team Improvement Plans.
- 3.2 As well as the corporate requirement to hold monthly PFM meetings, Finance has monthly Directorate Management Team meetings. Through these, the progress and impact of service delivery is reported on and monitored. This is a key conduit for directorate decision making.
- 3.3 Each member of staff receives an annual appraisal, which includes reviewing progress of the previous year's objectives, and development/training plans and objectives are set based on their contribution to delivering their Team Improvement Plans' objectives for the coming year. Informal mid-year reviews are conducted and can be part of the monthly one-to-one meeting between managers and their direct reports.
- 3.4 Managers and team leaders hold regular meetings with their teams, where progress against key priorities and targets are discussed and staff are given the opportunity to raise risks and issues and hear wider directorate and corporate communications. All staff have regular one-to-one meetings with their managers/team leaders for performance monitoring and pastoral support.

### **4. Planning and decision making**

- 4.1 The Finance Directorate has robust monitoring and management structures, processes and practices in place, to appropriately review delivery against planned targets and outcomes, and to monitor and manage all aspects of financial, performance and service delivery risk.
- 4.2 The directorate runs with 3 Heads of Service (2 permanent and one interim) and the wider senior management team is extended to include the Strategic Finance Manager and the professionally independent Chief Internal Auditor.

- 4.3 In addition, Finance Directorate officers lead and/or participate in several key strategic and stakeholder/consultative/co-construction and partnership groups.
- 4.4 The governance structure along with robust planning, monitoring, review and risk management practices ensures sound planning and decision making, performance and financial monitoring and robust consultative/partnership activity, as well as integrated and collaborative ways of working.

## **5. Budget and resources management**

- 5.1 In line with corporate requirements, the Finance Directorate holds Performance and Financial Management meetings (PFM). This group monitors the progress of and addresses any issues:
- Team Improvement Plans, objectives and targets
  - Key performance indicators (KPIs)
  - Corporate, directorate and service risks
  - Capital and revenue budgets
  - Freedom of Information Act (FOI) requests; Subject Access Requests (SAR) and complaints
  - Directorate's sickness levels
  - Cases of fraud
  - Headcount reductions
  - Procurement and financial controls
  - Preparations for, and actions arising from, local authority audit inspections/regulatory activity
- 5.2 On financial matters the directorate expects to lead by example not only operating the same PFM process as other directorates but ensuring it manages within its budget allocation and takes appropriate action. This is evidenced in repeatedly underspending in past years as a part of Resources Directorate and including the continued underspend forecast for 2022-23, even after allowing for the national pending pay award.

## **6. Fraud and financial impropriety**

- 6.1 The assurance framework and robust internal controls set out in this report provide a solid foundation for the continuing promotion of an anti-fraud culture within the Finance Directorate and for any matters of concern to be identified and confidently raised by staff.

## **7. Compliance with policies, rules and regulatory requirements**

- 7.1 The assurance framework and robust internal controls set out in this report provide a solid foundation for ensuring compliance with policies, rules and regulatory requirements within the Finance Directorate. Periodic reminders are given to managers and team members and re-emphasised in any training opportunities.

## **8. Internal controls**

8.1 Key elements of the internal control framework include:

- Clear roles and responsibilities
- Clear and effective authorisation processes
- Robust and complete policies and procedures
- Robust monitoring, reporting and review arrangements
- Timely identification and mitigation of control weaknesses
- Staff awareness of procedural rules
- Promotion of an anti-fraud culture

8.2 Internal controls compliance is assured through:

- Performance and Budget Monitoring and robust action, reporting and escalation
- Internal Audit Assurance
- Senior Management Assurance Statements
- Risk Management/Data Security
- Programme/Project Assurance

## **9. Data security**

9.1 The Directorate manages high levels of personal information, and statutory requirements are such that this information needs to be routinely used to inform reports, assessments and plans. The consequences of any inadvertent data breach are always serious.

9.2 The processes for monitoring and reporting breaches are well established across the Directorate, as are the processes for learning from any such breach. Officers collaborate closely with the council's Data Protection Officer to ensure that any lessons learned from breaches anywhere in the council and beyond are used to continually improve our processes.

9.3 Arrangements are in place and monitored at PFM and officers are appropriately trained and reminded of the importance of agreed procedures. This is apparent from the limited number of breaches and issues that have taken place within the Directorate given its size of customer base (every resident/taxpayer).

## **10. Partnership/collaboration governance**

10.1 Finance Directorate officers lead on several key strategic and stakeholder/consultative/partnership groups, to ensure that there is regular engagement and appropriate input from key stakeholders into key planning processes, and to further enhance monitoring of progress and performance. Increasingly, the directorate relies on key delivery partners.

10.2 In all groups, important strategies, challenges and issues are discussed, clear outcomes defined, and actions allocated.

## **11. Integrated Assessment Implications**

11.1 The council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts
- Advance equality of opportunity between people who share a protected characteristic and those who do not
- Foster good relations between people who share a protected characteristic and those who do not
- Deliver better outcomes for those people who experience socio-economic disadvantage
- Consider opportunities for people to use the Welsh language
- Treat the Welsh language no less favourably than English
- Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs

11.1.1 The Well-being of Future Generations (Wales) Act 2005 mandates that public bodies in Wales must conduct sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by acting, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals.

11.1.2 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also considers other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

11.2 There is no direct impact associated with this report on the relevant groups considered within the IIA itself but assessing long-term trends and preventing risks from becoming issues are key aspects of risk management. Sustainable ways of working are incorporated within the council's risk management policy and framework.

11.3 Given the nature of this report to the Governance and Audit Committee it has been agreed that an IIA screening is not required on this occasion.

## **12. Legal Implications**

12.1 There are no legal implications.

## **13. Financial Implications**

13.1 There are no financial implications.

**Background papers:** None

**Appendices:**

Appendix A	(Directorate) Corporate and Directorate Risks on a page Report
Appendix B	(Directorate) Assurance Map updated
Appendix C	IIA Form