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Dear Members

Joint Meeting of the Cabinet and Audit and Accounts Committees

A joint meeting of the Cabinet and Audit and Accounts Committees will be held in the **Craddock Room, Civic Centre, Riverside, Stafford on Tuesday 13 February 2024 at 6.00pm** to deal with the business as set out on the agenda.

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

A handwritten signature in black ink, appearing to read "I. Curran".

Head of Law and Governance

JOINT MEETING OF THE CABINET AND AUDIT AND ACCOUNTS COMMITTEES

13 FEBRUARY 2024

Leader - Councillor A T A Godfrey

Audit and Accounts Committee Chair - Councillor M G Dodson

AGENDA

- 1 Apologies
- 2 Officers' Reports

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| GRANT THORNTON | |
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| DEPUTY CHIEF EXECUTIVE (RESOURCES) AND S151 OFFICER | |

Cabinet:

A T A Godfrey - Leader
R Kenney - Deputy Leader
A N Pearce - Climate Change Portfolio
J Hood - Community Portfolio
A F Reid - Economic Development and Planning Portfolio
I D Fordham - Environment Portfolio
G P K Pardesi - Leisure Portfolio
R P Cooke - Resources Portfolio

Audit and Accounts Committee:

M G Dodson
R A James
P A Leason
A M Loughran
A R McNaughton
D P Rouxel

Auditor's Annual Report on Stafford Borough Council

2021-22 and 2022-23

January 2024

Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary (1 of 4)

Value for money arrangements and statutory and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020-21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2021-22 and 2022-23 given the similarity in issues between years and also the timing when the work was undertaken. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We identify five significant weaknesses in the Council's arrangements for value for money (VfM) resulting in one statutory and four key recommendations

The Council have faced significant resource challenges since the pandemic which has meant that they have had to make choices on how it uses the resources it has available. In 2020-21 the Council initiated an upgrade to the financial ledger system which placed significant pressure on the capacity of the finance team. The Council bought in no specialist resource or additional support to scope or implement the new system or to programme manage its implementation. This lack of capacity has resulted in some of the weaknesses highlighted in this report

Our findings of the VfM audit for 2021-22 and 2022-23 identifies five significant weaknesses that covers all three areas covered by our VfM work.

The statutory recommendation relates to the urgent need to improve financial planning and monitoring.

The four key recommendations relate to the need for a savings programme to address the medium-term financial gap rather than planned use of reserves, the need to address significant weaknesses relating to internal controls in ICT and fraud and to significantly improving the Council's performance management arrangements.

Our conclusions are summarised in the table on the next page and set out in detail on pages 7 to 16.

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Our Responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate arrangements relating to issues with financial planning and financial monitoring arrangements. Further details are set out in the attached report.

What does the Council need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions:

The Council must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council.

At that public meeting the Council must decide

- whether the recommendations are to be accepted; and
- what, if any, action to take in response to these recommendations.

Schedule 7 specifies the meeting publication requirements that the Council must comply with.

Executive summary (2 of 4)

Five significant weaknesses are identified in the Council's arrangements for value for money (VFM) resulting in one statutory recommendations and four key recommendations

| Criteria | Risk assessment | 2020/21 Auditor Judgment | 2021/22 Auditor Judgment | 2022/23 Auditor Judgment | Direction of travel |
|---|---|--|--|--|---------------------|
| Financial sustainability | No risks of significant weakness identified | No significant weaknesses in arrangements identified, but one improvement recommendation made | Two significant weaknesses in arrangements identified resulting in one statutory recommendation and one key recommendation. One improvement recommendation made. | Two significant weaknesses in arrangements identified resulting in one statutory recommendation and one key recommendation. One improvement recommendation made. | ↓ |
| Governance | No risks of significant weakness identified | No significant weaknesses in arrangements identified, but three improvement recommendations made | Two significant weaknesses in arrangements identified resulting in two key recommendations. Two improvement recommendations made. | Two significant weaknesses in arrangements identified resulting in two key recommendations. Two improvement recommendations made. | ↓ |
| Improving economy, efficiency and effectiveness | No risks of significant weakness identified | No significant weaknesses in arrangements identified, but three improvement recommendation made | One significant weaknesses in arrangements identified resulting in one key recommendation. One improvement recommendation made. | One significant weaknesses in arrangements identified resulting in one key recommendation and one improvement recommendation made. | ↓ |

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary (3 of 4)



Financial sustainability

In our Auditor's Annual Report (AAR) 2020-21 we identified the Council should put in place a more detailed and regular process for monitoring budget performance by members, including quarterly reporting to Scrutiny Committees, Cabinet or Council and we recommended the Council reviews finance team capacity. We have identified a significant weakness in the Council's arrangements for financial planning and monitoring in both 2021-22 and 2022-23 which has extended into 2023-24. There was no formal financial planning or monitoring in either year on revenue or capital. In our opinion these weaknesses were caused by a lack of financial leadership in 2021-22 and 2022-23 and ongoing finance team capacity pressures. A lack of formal monitoring continued into 2023-24. We make a statutory recommendation on page 7.

Finance team capacity in both years was impacted by the Council's decision not to bring in additional capacity to support the scoping, testing or implementation of the new finance system which has placed significant strain on the team. The lack of capacity in finance extended into 2022-23 and 2023-24. On 8 December 2022, the new Deputy Chief Executive (Resources) and S151 joined the Council. This is a joint post with Cannock Chase District Council. In September 2023 he started a review of finance team capacity.

In 2022-23, the Council did not have a robust plan to address its financial gap for the medium-term despite needing to find £1.659m, instead it was making planned use of reserves. The £1.659m assumed the delivery of savings of £0.876m in 2023-24 and a cumulative £1.711m in 2024-25 so this gap could increase without effective programme management. Using reserves to fund future budget gaps is unsustainable. In February 2022, Full Council were told savings would be required in future years, some savings were presented to members in January 2023 but in September 2023 the Council's own view is there is no savings programme in place to track and monitor their delivery and planned to introduce savings in 2024-25 budget setting. We make a key recommendation on page 9. We also raise an improvement recommendation to introduce a costed workforce strategy (page 23).



Governance

The Council has significant weaknesses in internal controls relating to ICT and fraud, which could expose it to significant financial or service loss including fraud and cyber-attacks and it has failed to follow-up on external audit recommendations in these areas and we have made key recommendations to address these on page 11 and 13. In our AAR 2020-21 we identified that internal audit recommendations were not followed-up and we raised an improvement recommendation which is not actioned. This related to critical information systems not supported by IT, Cyber and Network Security and Information Governance audits. These issues were still present in 2021-22 and 2022-23. A further Internal Audit carried out on Cloud Strategy and Security in 2021-22 gave partial assurance and found the Council's policy for hosted solutions was not updated since 2015. We found in both years, ICT did not undertake performance monitoring or reporting to address security weakness identified from the security monitoring software or to improve the Council's ICT security. The Council's Technology Strategy was out of date in both years and access to critical systems and data by non-corporate devices was possible during 2021-22 and 2022-23.

In our AAR 2020-21 we found there was no central coordination of the National Fraud Initiative (NFI) data matches and no dedicated counter fraud officer with reliance on services to review the datasets with no formal reporting or monitoring. We raised an improvement recommendation which is still outstanding. In 2021-22 and 2022-23, the Council also only had eight days of internal audit time dedicated to fraud risks however fraud is also included in audit report scoping. The Council's arrangements to prevent and detect fraud are significantly out of date. They rely on an Anti-Fraud and Bribery Framework and a Confidential Reporting Framework both from 2014. Procurement fraud is the second highest fraud volume area according to CIPFA's Fraud and Corruption Tracker (2020) but no work to identify fraud in this area was taking place in either year. Work to detect fraud also needs to extend to the Council's financial processes. We conclude the Council does not have adequate arrangements in place to detect and prevent fraud.

We have made key recommendations to address these significant weaknesses on page 11 and 13.

Executive summary (4 of 4)



Governance (continued)

The Council's Risk Management Strategy and Policy Framework (March 2016) needs updating, and SRR format improving. Risk, performance and finance reporting needs to be integrated for Cabinet and reported quarterly. Some risk controls are out-of-date in 2021-22 and 2022-23 given the lack of finance monitoring which is identified as a control measure. We found there is good conversation on risk management at the Audit and Accounts Committee particularly relating to finance and contract risks, but we identify improvements are required to the Council's risk management arrangements and make an improvement recommendation on page 27. We also raise an improvement recommendation to update the Officer Code of Conduct (page 28).

The lack of finance team capacity extended across both 2021-22 and 2022-23 and into 2023-24 which we discuss on page 20. We include this in our statutory recommendation on page 7.



Improving economy, efficiency and effectiveness

We find performance management arrangements were weak in both 2021-22 and in 2022-23 with no evidence the Council has a performance management framework to deliver its Corporate Plan. This meant the Council was reactive to challenges rather than proactively forward planning or anticipating issues before they emerged. The Council is seeing increasing cost on its leisure contract but is relying on the contractor for performance monitoring. The Council needs to develop a savings programme but cannot do so effectively without robust performance arrangements. We make a key recommendation on page 15.

The Council has shared some services with Cannock Chase District Council since April 2011. During 2021 it began sharing the Chief Executive on an interim basis and on 7 December 2022, Full Council agreed to extend its service sharing with Stafford. The sharing agreement includes all services apart from the Housing Revenue Account in Cannock, both housing registers and elections. The first two key stages are complete with a new joint Leadership Team including two new Deputy Chief Executives. Full transformation is planned over three years. The two Councils have established a Shared Services Board with members from each Council and the joint Leadership Team. The Deputy Chief Executive (Resources) is developing a strategic transformation plan and is bringing in a transformation resources and skills. Transformation costs are funded from ear marked transformation reserves.

The Council does not have a Procurement Strategy. It has an out-of-date contracts register and out of date procurement regulations. It has no client lead for procurement and contract management and relies on Staffordshire County Council for procurement advice. It has no planned procurement programme. Procurement processes are not always followed correctly and an overreliance on the use of waivers. This meant contracts were not always market tested fully or work was issued outside of contract agreements or on contracts that had expired. Lack of knowledge of current contracts, end dates and the timescales needed to re-tender major works. In June 2023 Internal Audit found a lack of knowledge of current contracts, end dates and the timescales needed to re-tender major works. There is no central record of waivers. We make an improvement recommendation on page 32. The Council is aware it needs improvement in these areas and has included the Contracts Register in its planned governance improvements for 2023-24 and 2024-25.

Statutory recommendation 1



Financial sustainability and Governance

Statutory Recommendation 1

The Council needs to improve its financial planning and financial monitoring arrangements by:

- ensuring it has adequate capacity in its finance team and ensure that budget holders receive formal financial monitoring reports during the year and to review year end variances to help inform the budget setting process of the subsequent year
- putting in place a Capital Strategy that complies with the revised Prudential Code.
- producing draft financial statements in line with statutory requirements and working with external auditors to deliver audits effectively

Audit Year

2021-22 and 2022-23

Why/Impact

The lack of financial planning and monitoring in both years meant the Council could not deliver an efficient budget in 2021-22 or 2022-23 which impacted on its financial sustainability and on governance. As a result, it also failed to meet statutory financial statement audit deadlines.

Auditor judgement

The Council's arrangements for financial planning and financial monitoring are not adequate.

Summary findings

In our AAR 2020-21 we identified the Council should put in place a more detailed and regular process for the monitoring of budget performance by members, including quarterly reporting to Scrutiny Committees, Cabinet or Council and recommended the Council reviews finance team capacity. We have identified a significant weakness in the Council's arrangements for financial planning and monitoring in both years which has extended into 2023-24. There was no formal financial planning or monitoring in either year on revenue or capital. In 2021-22 there was no treasury management mid-year reporting and the annual Treasury Management report for 2021-22 was a year late. In our opinion these weaknesses were caused by a lack of financial leadership in 2021-22 and 2022-23 and ongoing finance team capacity pressures. Finance team capacity in both years was impacted by the Council's decision not to bring in additional capacity to support the scoping, testing or implementation of the new finance system which has placed significant strain on the team. The finance team did not engage budget holders during 2021-22 and 2022-23 to review their financial requirements and challenge revenue or capital budget variances. There is historical underspending on revenue outturn compared with agreed budgets and historic capital slippage. The Council is not compliant with the CIPFA Financial Management Code in both years or the Prudential Code. Finance team capacity and a lack of reporting has delayed statutory the financial audit for 2021-22 by a year and the Council is yet to publish financial statements for 2022-23.

Statutory recommendation 1

Management comments

The Council has been through a very challenging period with numerous demands and challenges being overcome by the finance team over the time span of this audit. The findings are helpful and highlight the need to increase the capacity of the finance team to ensure that it can carry out its statutory functions whilst supporting the organisation and its wider ambitions. This is being reflected in the 2024/25 budget setting with very significant investment being included in the base budget position to increase the capacity in the finance team. In addition, a budget is being included for transformation to review processes and systems to further support this, which includes several of the actions referred to throughout this report.

Progress has been made in 2023-24 with formal monitoring restarting, engagement with budget holders and a zero-based budgeting exercise to identify and rectify budget areas of recurring over/underspending. There is still work to be done and a review of the finance structure will be undertaken to ensure adequate resource is put in place to continue this work. In addition, before new projects or workstreams begin, an assessment will be undertaken to ensure that the team will be able to support and deliver it or if new additional resource is required.

A lessons learned will be undertaken on the system implementation; this review will be undertaken with support from Internal Audit. The crisis in local government audit is well documented and Stafford is far from unique in not having completed the sign-off its accounts as detailed above. Central government is expected to issue guidance on this in the new year. A full review of policies and compliance will be undertaken as new resource is added to the team. Balanced budgets have been set each year in line with the best information available and signed off by the relevant S151 officers that they are robust in line with guidance.

Key recommendation 1



Financial sustainability

Key Recommendation 1

The Council should develop a corporate saving and transformation programme to help it reduce spending by looking at different ways of delivering services. It needs to:

- use the corporate business plan to identify its budget priorities and review service budgets.
- develop an understanding of the cost of delivering its core statutory services and discretionary spend where it meets clear Council priorities and identify reductions to non-essential spending.
- identify ways to deliver for less by using unit cost benchmarking to review the cost effectiveness of existing activities.
- identify any discretionary activity that could be reduced or curtailed where it does not contribute to corporate business plan priorities.
- consult on service changes and future spending plans with the public and include public engagement annually as part of business planning.
- ensure the requisite skills are in place to manage the programme, lead change and explore new ways of working.
- develop early ideas for savings with budget holders and present these members to enable early engagement with key stakeholders and to enable members to see options and the impact of savings on residents across the Council.

| | |
|--------------------------|---|
| Audit year | 2022-23 |
| Why/impact | We identify a significant weakness in arrangements as the Council did not have a robust plan to address its financial gap in the medium-term, instead it was making planned use of reserves. This relates particularly to 2022-23 given the gap it identified for the next two years and the Council's own view that no programme management of savings was in place by September 2023 despite needing to find £1.659m from reserves by 2025-26. The £1.659m assumed the delivery of savings of £0.876m in 2023-24 and a cumulative £1.711m in 2024-25 so this gap could increase without effective programme management. |
| Auditor judgement | The Council needs to develop a corporate savings and transformation programme to identify reductions to non-essential spending and review the level at which it is delivering statutory services to ensure it is financially sustainable. |
| Summary findings | The Council does not have a robust plan to address its financial gap in 2022-23 for the medium-term, instead it was making planned use of reserves. Using reserves to fund future budget gaps is unsustainable. In February 2022, Full Council were told savings would be required in future years, some savings were presented to members in January 2023 but in September 2023 the Council had no savings programme in place to track and monitor their delivery and planned to introduce savings in 2024-25 budget setting. |

Key recommendation 1

Management comments

Due to one year funding settlements from central government councils are unable to balance their budgets in the medium term. They are unable to include central government funding as it has not been announced but planning to bridge this gap in future years would be unreasonable as it is known funding will be announced, just uncertainty around the amount. Closing this gap entirely would lead to the end of many front-line services and be inappropriate as once the funding was announced the council would be in a surplus position.

Please see response to statutory recommendation above as much of it applies to this recommendation and the reasoning as to why a savings programme over and above that which is in place is not being looked at present.

By trying to set the budget later the council is planning to have better information on the central government settlement which can then be included. Regular monitoring will be maintained to ensure that any budget gap remaining after the settlement announcement is addressed.

Benchmarking and reviewing activities is something the Council will be integrating into its performance work as this will enable it to ensure best value is being achieved, as suggested above.

A savings programme is not appropriate for the Council at present. Instead, a transformative programme to review service delivery and processes is planned to be implemented over the next two years; this is part of our planned approach to bringing the services together. While savings may flow from this, service delivery and achieving best practice will be the focus.

Key recommendation 2



Governance

Key Recommendation 2

The Council needs to urgently address its significant weaknesses in its internal controls relating to ICT by:

- ensuring its systems are fully supported by IT, Cyber and Network Security and making sure all policies are up to date and shared with staff who are appropriately trained and ensuring regular performance monitoring to address any evolving security weaknesses identified.
- ensuring the Council has appropriate arrangements in place to meet information governance requirements including third party data transfers, privacy impact assessments and governance frameworks and ensuring staff know how to use these and access appropriate support and training.
- working with procurement and commissioning to embed ICT controls and information governance in procurement and commissioning decisions.

| | |
|--------------------------|--|
| Audit year | 2021-22 and 2022-23 |
| Why/impact | The lack of effective controls for information governance, cyber security and fraud could expose the Council to significant financial or service loss. |
| Auditor judgement | The Council has significant weaknesses in internal controls, which could expose it to significant financial or service loss including fraud and cyber-attacks and it has failed to follow-up on external audit recommendations in these areas. |
| Summary findings | In our AAR 2020-21 we identified that internal audit recommendations relating to Critical Information Systems not supported by IT, Cyber and Network Security and Information Governance were not followed-up and raised an improvement recommendation which is not actioned. These three issues were still present in 2021-22 and 2022-23. A further Internal Audit carried out on Cloud Strategy and Security in 2021-22 gave partial assurance and found the Council's policy for hosted solutions was not updated since 2015 and was not compliant with current security guidance and technology solutions. In 2021-22 only 50% of staff received cyber security training. We found in both years, ICT did not undertake performance monitoring or reporting to address security weakness identified from the security monitoring software or to improve the Council's ICT security. The Council's Technology Strategy was out of date in both years and access to critical systems and data by non-corporate devices was possible during 2021-22 and 2022-23. In March 2023, the recommendations concerning the Critical Information Systems not supported by IT were still outstanding and the Audit and Accounts Committee were told a further ICT audit received limited assurance. The ICT third party supplier audit had limited assurance with data protection impact assessments, risk assessments and signed confidentiality agreements not always completed or available for third party data transfers. We found significant weaknesses in the Council's ICT control environment. It is our opinion that these weaknesses are caused by a lack of leadership and capacity in the ICT team and could leave the Council open to a greater risk of cyber-attacks, fraud and data governance breaches if not addressed. |

Key recommendation 2

Management comments

Priority in addressing recommendations identified in Internal Audit reports, and the external audit recommendations, has been given to ensuring measures have been put in place to improve security. The majority of these have now been addressed, and there are just a small number of IA recommendations still outstanding. Progress has been and continues to be made to address these.

- Critical Information Systems - this was originally a limited assurance but moved to partial. The only recommendation outstanding is updating the IT Security Policy.
- Cyber and Network Security & Information Governance - this was originally a limited assurance but moved to partial. There is only one recommendation outstanding which relates to improving the number of staff who have completed their cyber security training (approx. 50% had). The cyber security training has been reissued to staff in December 2023 and an escalation process has been agreed to ensure that all staff complete their training.
- Third Party Supplier Management - this was originally a limited assurance but has moved to partial. The only recommendation outstanding at the last follow-up was the need for an IT contracts register. This has now been completed (copy attached).
- Change Management - this was originally a limited assurance but moved to partial. 3 recommendations were outstanding at the last follow-up and these are being addressed. A draft change management policy had been produced and this will be considered by Leadership Team in the new year for approval. This policy will address the outstanding recommendations from the change management audit.

The Council has invested £250k from government funding into updating its security arrangements and training members of the IT team. Over the last 12+ months we have:

- put an IT security officer in place (1st February 2023);
- received £10k grant from NCSC which has been used for Cyber training in the IT team in 2023;
- received £250k grant from the MHLCG which has been used to improve our IT security arrangements through the provision of security hardware/software (new VPN Software, new firewalls, new email filtering system and a full backup solution across both councils)
- a yearly IT Health check (penetration testing) is performed by external provider and a workplan devised from the findings.
- Received Cyber Essentials Plus certification for 2022 and progressing 2023.
- the Council has passed the PSN accreditation to connect to the Public Services Network.

Whilst we accept that some non-corporate devices still have access to critical systems and data, conditional access policies are used within Microsoft Office 365 and our VPN software to determine access to the IT network (this has been in place since 2022).

We are looking at a “network monitoring, detection and response (MDR) solution” and a paper on this will be going to Leadership Team. In the interim we have been making the most we can of the tools within the Microsoft environment including Microsoft Defender and Sentinel products.

It is acknowledged that the focus on putting controls in place and ensuring the security of our systems has meant that progress in updating policies has been slower. But new management arrangements are in place, and we are working on addressing the remaining audit recommendations and updating policies.

The IT Security Policy has been identified as the immediate priority, along with refresher training for staff and this will be completed by April 2024. The Information Governance Framework will also be completed by April 2024.

Key recommendation 3



Governance

Key Recommendation 3

The Council needs to urgently address its significant weaknesses in its internal controls relating to fraud by:

- ensuring there is central coordination for the National Fraud Initiative (NFI) matches.
- putting in place a dedicated counter fraud officer.
- updating the anti-Fraud and Bribery Framework and the Confidential Reporting Framework.
- ensuring work to detect fraud is extended to cover the finance system and procurement arrangements in the Council.

| | |
|----------------------------|--|
| Audit year | 2021-22 and 2022-23 |
| Why/impact | The lack of effective controls for fraud could expose the Council to significant financial loss. |
| Auditor judgement | The Council has significant weaknesses in internal controls relating to fraud, which could expose it to significant financial loss, and it has failed to follow-up on external audit recommendations in this area. |
| Summary findings | In our AAR 2020-21 we found there was no central coordination of the National Fraud Initiative (NFI) data matches and no dedicated counter fraud officer with reliance on services to review the datasets with no formal reporting or monitoring. We raised an improvement recommendation which is still outstanding. This was also raised by a member of the Council's Accounts and Audit Committee on 16 November 2022. In 2021-22 and 2022-23, the Council also only had eight days of internal audit time dedicated to fraud risks, however, fraud is also considered in audit planning. Responsibility for fraud is shared between Internal Audit and the compliance officers in the Revenues and Benefits Team who mitigate risk in Council Tax fraud. The Council's arrangements to prevent and detect fraud are significantly out of date. They rely on an Anti-Fraud and Bribery Framework and a Confidential Reporting Framework both from 2014. These Frameworks need bringing up to date. Procurement fraud is the second highest fraud volume area according to CIPFA's Fraud and Corruption Tracker (2020) but no work to identify fraud in this area was taking place in either year. Work to detect fraud also needs to extend to the Council's financial processes. We conclude the Council does not have adequate arrangements in place to detect and prevent fraud. |
| Management Comments | <i>Management response to follow</i> |

Key recommendation 3

Management comments

We do have a central co-ordinator for the NFI Data Matching. This role has been undertaken by the Chief Internal Auditor & Risk Manager since 2007. He monitors progress and ensures that all significant areas are covered and that data matches are followed up. Reference to the NFI/Fraud work is included in the Annual Audit Report for 2022-23. The Revenues and Benefits Team also do pro-active data matching across the county which covers wider sources than the NFI exercise.

The Internal Audit Team take a pro-active approach to fraud and this is embedded in the planning for each system review, including finance and procurement. The days for this work are accounted for separate to the 8 days referred to; the 8 days relate to working with other organisations on fraud best practise. The Chief Internal Auditor also undertakes a number of key pieces of work relating to fraud, including the NFI work and investigations and this is not accounted for in the 8 days either. The Council does not have a high incidence of fraud and considers that the resources allocated are proportionate to the level of risk. We do not consider it realistic to have a dedicated Counter Fraud Officer given the size of the Councils and the nature of our spending.

The Anti- Fraud and Bribery Framework and the Confidential Reporting Framework will be updated. Furthermore, an assessment against the CIPFA Code of Practice for Fraud will be undertaken as part of the review and updating of the policy framework and fraud arrangements extended to cover all aspects of the Council's financial processes and procurement. This will be completed by April 2024.

Key recommendation 4



Improving economy, efficiency and effectiveness

- Key recommendation 4** The Council needs to improve its performance management arrangements by:
- establishing a golden thread for the Council, by creating a performance management framework at corporate and service levels linking outcomes to expected annual measures to track success and report these to the public;
 - developing annual delivery plans aligned with the Corporate Plan and reduce the number of service specific strategies to ensure the golden thread is in place;
 - agreeing performance outcomes, that can be measured, at least annually as part of the new performance management framework;
 - improving performance reporting to include targets, RAG rating, and actual measures and benchmarking. Reports should use previous year and 'nearest neighbours' data where possible; integrating performance, risk and finance reporting to drive improvement;
 - ensuring the Cabinet receives quarterly integrated performance, finance and risk reports to enable it to hold officers to account;
 - using performance and financial data and benchmarking to look at delivery levels of statutory services to ensure the Council is achieving value for money;
 - extending the new performance management framework and reporting to key contracts such as waste and leisure;
 - developing a strategic approach to assessing the levels of statutory services needed to save money;
 - agreeing corporate programme and project management methodology and ensuring its understood and applied across the Council and when commissioning these services.
 - internally validating contract performance management, including outcomes, together with cost and risk and reporting these regularly to Cabinet; and
 - engaging key stakeholders, where appropriate, to determine local priorities for resources or opportunities for savings.
 - developing a data quality policy and ensuring the quality of the Council's core datasets.

Audit Year

2021-22 and 2022-23

Why/Impact

Performance management arrangements are weak in both 2021-22 and in 2022-23 with no evidence the Council has a performance management framework to deliver its Corporate Business Plan. Without a framework in place, underpinned by effective performance management and validated data, it will not understand required improvements or have a golden thread to enable officers to understand how they contribute to corporate delivery or identify savings and achieve value for money. The Council was not able to use performance data to drive improvement or achieve value for money or to challenge its contractors. It needs to integrate performance, finance and risk reporting to ensure it is focusing spend on priorities to drive improvement. The Council is experiencing significant cost increases in its leisure contract, and it will require robust strategic monitoring in 2023-24 to identify further savings, scrutinise performance and contract costs. This requires closer member scrutiny.

Auditor judgement

The Council's arrangements for performance management are not adequate.

Summary findings

In 2021-22 and 2022-23 the Council lacked a performance framework and adequate performance monitoring meaning it was reactive to challenge, rather than proactively forward planning or anticipating issues before they emerged. Cabinet members cannot hold officers to account for performance if reporting is lacking. Performance benchmarking is not built into the Council's arrangements. The Council is seeing increasing cost on its leisure contract but is relying on the contractor for performance monitoring. The Council needs to develop a savings programme but cannot do so effectively without robust performance arrangements.

Key recommendation 4

Management comments

The Council has performance management arrangements in place to deliver the Corporate Business Plan. Annual delivery plans are in place that set out key actions to be delivered against each of the 4 key priorities in the Corporate Business Plan. The Delivery Plans are monitored and performance is reported to the relevant Scrutiny Committees. During the period covered by the review, performance was reported to Cabinet Briefings and the Cabinet Members attended the Scrutiny Committee meetings where the performance reports were considered in public. With effect from 2023-24 performance is reported directly to Cabinet and a RAG rating model has been adopted.

A documented Performance Management Framework will be produced to ensure a golden thread is established. As part of the work on this, steps will be taken to align performance with financial and risk reporting. Benchmarking data will also be used where relevant. The framework will also include performance management arrangements for the Council's key contractors. This framework is going to take time to fully develop; but steps will be taken to improve performance reporting alongside the new Corporate Plan for 2024/25.

A corporate Project Management Methodology will be developed and rolled out in 2024/25 along with training.

At this point in time the Council is not looking to create a new savings programme over and above that built into the approved budget, it is instead looking at a transformation programme to enhance and improve service delivery. Whilst savings may come from this, they are not the primary focus. This will be done as part of our development of shared services; this will include reviewing the level of statutory services, as we know that there are differences between the two councils.

Use of auditor's powers

We bring the following matters to your attention:

| | 2021/22 | 2022/23 |
|--|--|---|
| <p>Statutory recommendations</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly</p> | We make one statutory recommendation on pages 7. | We make one statutory recommendation on page 7. |
| <p>Public Interest Report</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.</p> | We did not issue a public interest report. | We did not issue a public interest report. |
| <p>Application to the Court</p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p> | We did not apply to the Court under Section 28. | We did not apply to the Court under Section 28. |
| <p>Advisory notice</p> <p>Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful. | We not issue any advisory notices. | We not issue any advisory notices. |
| <p>Judicial review</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p> | We did not apply for a judicial review. | We did not apply for a judicial review. |

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Council's report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



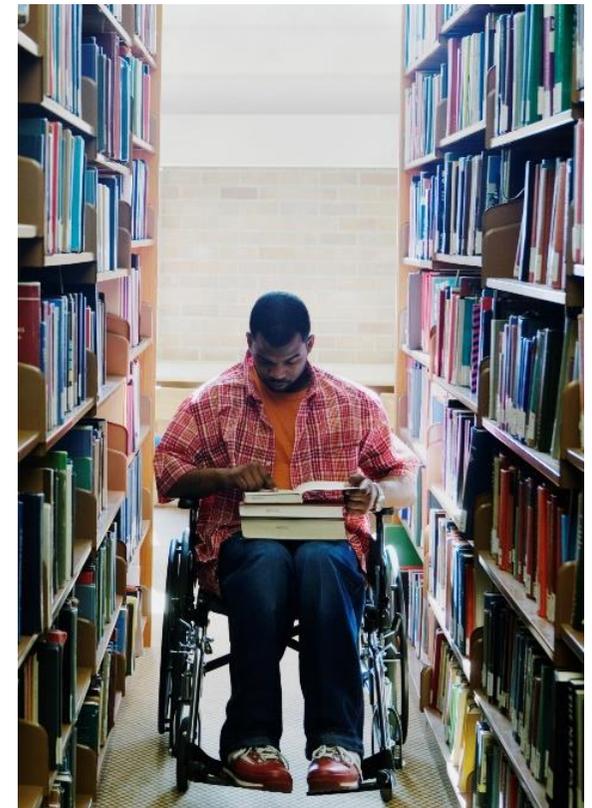
Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 19 to 32.

Financial sustainability (1 of 4)



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

How the Council ensures that it identifies all the significant financial pressures that are relevant to its short- and medium-term plans and builds them into its plans

The Council did not have a Medium-Term Financial Strategy (MTFS) in 2021-22 or in 2022-23 and **we include the need to develop a MTFS in our statutory recommendation concerning financial planning and monitoring on page 7.**

Annual budget setting reflects the impact of key expenditure drivers, such as population changes, pay and other inflationary pressures. In both years, the funding settlement was for one-year creating challenges for financial planning. In 2021, the budget was set at Full Council on 23 February at £13.05m with no change to the Council's core spending power. This included £2.38m from New Homes Bonus (NHB), £5.414m from Business Rates and £7.789m from Council Tax.

Council Tax for a Band D property for 2021-22 was set at £162.30 or a 1.9% increase from the previous financial year. The Council Tax base was agreed as 47,994 an increase of 296 from 2020-21.

In 2021-22 the budget assumed a £1.033m gap in 2022-23 which did not happen due to unexpected one-off grants and better than expected levels of NHB. On 1 February 2022 Full Council set Council Tax for 2022-23 at £165.38 an increase of 1.9% or £3.08 on a Band D property. The tax base was set at 48,490. An increase of 496 from the previous year.

The 2022-23 budget of £15.475m included £5.83m from business rates, £1.702m from NHB, £0.455m from the Lower Tier Services Grant and £0.195m from the Services Grant. A 4% inflationary uplift was assumed for the waste and leisure contracts.

On 24 January 2023 Full Council determined its budget for 2023-24 at £16.172m and set a Band D Council Tax at £168.52 or an increase of 1.9%. The Council Tax base was set at 48,863.

In January 2023, Resources Scrutiny were advised that due to technical and resource challenges, the final outturn for 2021-22 was being finalised with a provisional position of £0.484m underspend after setting aside £0.90m to cover the shortfall in the 2023-24 Budget.

In February 2022, the Council had identified a £1.692m budget gap in 2023-24 and a further gap of £1.851m in 2024-25. The actual budget gap for 2023-24 was reduced to £0.899m due to the lack of a business rate reset was positive helped to reduce the gap from the expected level.

In both years, the Section 25 statements in the Cabinet budget papers referenced the reserve levels and external impacts on the estimated budgets and confirmed reserve levels were appropriate. The Council set working balances of £1m for each year. It also has a revenue surplus reserve of £1m set annually.

How the body plans to bridge its funding gaps and Identifies achievable savings

In February 2022 Full Council were advised that a savings programme would be required for future years. As part of budget setting for 2023-24 the Leadership and Finance Teams undertook a budget savings exercise with no budget holder engagement. Savings for 2023-24 and 2024-25 were presented to Full Council on 24 January 2023. Budget savings proposals amounted to £0.876m in 2023-24 and a cumulative £1.711m by 2024-25. This included an expected saving of £0.688m from the shared services with Cannock Chase District Council over two years and £0.466m from leasing vacant office space in the civic centre. There was no formal budget monitoring in 2021-22 or in 2022-23, this lack of monitoring extended to savings.

We include in our statutory recommendation on page 7 the need to introduce planning and monitoring for the Council's savings programme once it is in place.

Financial sustainability (2 of 4)

How the body plans to bridge its funding gaps and Identifies achievable savings (continued)

The Council plans to use reserves to meet the budget gaps of £0.243m in 2024-25 and £1.412m in 2025-26. The budget gap funded from reserves assumed the delivery of £1.7m of savings by 2024-25 including £0.876m in 2023-24. However, the Council had no savings programme in either 2021-22 or 2022-23 and by September 2023 had not put one in place. The lack of achieved savings will put further pressure on reserves and is not financially sustainable.

We note the Council was planning to identify savings as part of the zero-budget exercise it is introducing for 2024-25 budgeting with full budget holder engagement.

We make a key recommendation for the Council to ensure it develops and monitors a savings programme to address its medium-term financial gap (see page 9).

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Corporate Business Plan 2021-24 has four objectives: delivering sustainable economic and housing growth to provide income and jobs; improving the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing strong communities that promote health and wellbeing; tackling climate change; and being a well-run, financially sustainable and ambitious organisation, responsive to customer needs and communities. Discretionary spend is aligned to this Plan with significant spending on economic development. However, the Council's corporate objective to tackle climate change is not budgeted and it has climate change reserve of £24,000 which is not sufficient to meet the costed carbon reduction plans.

We include in our statutory recommendation concerning financial planning the need to align the Council's budget with its Corporate Business Plan priorities (see page 7).

In 2020-21 the Council initiated an upgrade to the financial ledger system which also included cloud migration. The new finance system went live on 1 April 2021 enabling payments to creditors and income collection, but full implementation is significantly delayed impacting both 2021-22 and 2022-23 with ongoing reporting issues in 2023-24.

The upgrade placed significant pressure on the capacity of the finance team. The Council bought in no specialist resource or additional support to scope or implement the new system or to programme manage its implementation.

Due to a lack of capacity in the finance team, financial monitoring information was not provided to members in Committee, Cabinet or at Full Council during 2021-22 (including outturn reports for 2020-21 and 2021-22). This impacted on the production of an efficient budget. From 2022-23 the Cabinet and Scrutiny Committees received no formal monitoring. Some scrutiny committees did see some limited reporting, but this was not consistently applied, and full monitoring is not planned until 2024-25. In 2023-24 some financial monitoring reports are still not ready due to finance team capacity. This has delayed statutory timescales on the financial statements audit in both years. In 2021-22, 2022-23 and 2023-24 the finance team has not worked with budget holders to produce financial monitoring or discuss budget variances. **We identify a significant weakness relating to financial monitoring and make a statutory recommendation on page 7.**

However, we note in September 2023 there were plans to enhance capacity and to introduce business partnering as part of the zero-based budget work planned for the 2024-25 budget.

A lack of capacity in the finance team and a lack of financial reporting and monitoring has delayed the statutory finance statements audit by 12 months for the 2021-22 period meaning that timely assurance cannot be provided on the Council's budget. The 2022-23 draft financial statements are yet to be published by the Council.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council did not have workforce strategy in 2021-22 or in 2022-23 which it recognised in its Annual Governance Statement for 2022-23. **We raise an improvement recommendation on page 23 to develop a workforce strategy that is fully costed and focused on long-term transformation and the partnership with Cannock Chase District Council.**

Financial sustainability (3 of 4)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system (continued)

Capital spending is subject to historic slippage, and this continued into 2021-22 and 2022-23. In 2021-22 the Council identified it would spend £3.687m on capital investment but £1m of that slipped into 2022-23.

On 23 February 2021, Full Council approved the additional £19.748m in the capital programme for the Future High Streets (FHS) Programme, which included £14.3m from the Government Department for Levelling Up, Housing and Communities (DLUHC) and £5.37m of Council match-funding. The FHS Programme was not included in the capital monitoring report for 2021-22 presented to the Economic Development and Planning Scrutiny Committee on 9 November 2021.

In 2022-23, the Council was also awarded £4.673m from the UK Shared Prosperity Fund which includes capital and revenue funding. It covers a three-year period to 2025 and focuses on three key investment themes: community and place, supporting local business and people and skills.

In 2022-23 the agreed capital programme was £19.533m. The Council only spent £4.512m with significant slippage on the FHS Programme. In 2022-23 the Council had allocated £15.319m to the FHS Programme but spent just £2.180m. The capital programme for 2023-24 shows it spending £13.801m on the FHS Programme and the remaining £5.5m in 2024-25. Grant funding needs to be defrayed by 31 March 2024 and we are concerned about the Council's ability to achieve this date.

The FHS Programme includes four projects to improve Stafford Town Centre and provide future revenue for the Council. The projects include the resurfacing of Market Square to enable more events to take place, the relocation of the indoor market and enhancements to the station approach. Plans also included the former Marks and Spencer site and the Bus Station. The site changed in 2022-23 due to land availability issues which required a variation agreement from DLUHC which is still awaited in September 2023. This request includes a six-month extension to the grant funding defrayment date.

Reasons for capital programme slippages are not presented to members and members saw no capital reprofiling reports in 2021-22 or 2022-23. Members did see updates on two of the four projects in the FHS programme during 2022-23 but no reporting on the whole programme.

We find there is no capital programme management in place and risk management arrangements for capital projects are poor. Programme benefits from capital spend are not evident. During 2021-22 or 2022-23 members saw no formal financial monitoring on the whole of the capital programme. A lot of the Council's capital programme is managed by external contractors with no internal programme management oversight. The Council is aware that it needs to improve capital programme management and plans to create a capital pipeline and manage that through an intelligent client function. We also think capital reporting needs more detail including programme benefits and integration with performance reporting.

The reporting on the capital programme is a significant weakness and forms part of our statutory recommendation concerning financial planning and monitoring on page 7. We identify the need to improve risk management for projects and programmes in our risk management improvement recommendation on page 27.

On 1 February 2022, at Full Council members received the Annual Treasury Management Report for 2020-21. The Annual Treasury Management Report 2021-22 was presented to the Audit and Accounts Committee on 20 February 2023. Neither Full Council or the Audit and Accounts Committee received mid-year reporting on Treasury Management in 2021-22.

We identify the lack of treasury management reporting in 2021-22 was due to a lack of capacity in the finance team and forms part of our statutory recommendation on financial planning and monitoring on page 7.

The Council did not update their Capital Strategy in either year. It was last updated in 2018 and is not compliant with the new Prudential Code (2021). The Council needs to update its Capital Strategy to reflect the changes made to the reporting of investments which we include in our statutory recommendation on page 7.

Financial sustainability (4 of 4)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system (continued)

During 2021-22 and 2022-23 the finance team did not meet with budget holders to discuss their budget requirements or reasons for budget variances. The Council plans to start budget monitoring in 2024-25 and is also planning to increase finance team capacity, reset the culture and introduce business partnering. The Council has year-on-year underspent its revenue budget and plans to address the variances between revenue budgets and their outturn as part of its zero-based budget exercise for 2024-25.

How the body identifies and manages risks to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

The Council does not use scenario planning across the medium-term such as the Office of Budget Responsibility (OBR) inflationary forecasting or expected changes to the Council Tax base over the period. Inflationary impacts are built in annually using the previous November inflation rate. **We include in our statutory recommendation concerning financial planning and monitoring on page 7 the need to use scenario planning and sensitivity testing when setting the MTFs. We think this would help the Council to plan more effectively.**

Council risk management is limited as we discuss on page 24. An appendix to the annual budget identifies very high-level risks with no impacts, controls or assurances in place. This needs aligning with the SRR format, and we include this in our improvement recommendation on risk management on page 27.

On 31 March 2021, the Council had £25.239m of earmarked reserves but only £0.395m of unallocated reserves. It had £15.540m in its earmarked revenue reserves and £10.501m of capital reserves. In January 2023, the Council only had £24,000 in its reserve budget for climate change despite it being one of its four objectives in the Corporate Business Plan.

In January 2023, the Council expected to have £16.020m in revenue reserves, including grants, and £8.863m in capital reserves. The Council also created a £1.569m reserve to offset the cost of borrowing for the FHS Programme and held a reserve of £4.566m to reduce the impact of Business Rates fluctuations. The Council was projected to hold total General Fund reserves of £24.884m on 31 March 2023 and £25.158m on 31 March 2024.

In 2022-23 internal audit found some S106 funds remained unspent for large periods of time and ongoing monitoring was needed to ensure they are spent before the agreements expire and are lost to the Council. The Council had £4.604m of Section 106 money unspent including £1.401m allocated to projects and £3.203m unallocated.

Improvement recommendation 1



Financial sustainability

Improvement Recommendation 1

Develop a workforce strategy that is fully costed and focused on long-term transformation and the partnership with Cannock Chase District Council.

Audit year

2021-22 and 2022-23

Why/impact

Costing the workforce requirements over the medium to long term will enable finance to build assumptions into the MTFS and is particularly critical given the next steps on the Council's shared transformation programme.

Auditor judgement

Developing a costed strategy will enable both Stafford Borough and Cannock Chase District Councils to plan its future workforce requirements and build in medium-to long-term assumptions for budget planning.

Summary findings

The Council is on a shared services journey with Cannock Chase District Council. Having a robust and costed workforce strategy to meet the workforce challenges ahead is important particularly given the two councils are looking at aligning pay and rewards in the medium-term and need to invest in skills to strengthen its capacity in key services.

Management Comments

Agreed - it is proposed to produce a workforce strategy in 2024-25, once work on developing the organisation's vision, culture and values has been completed.



Governance (1 of 3)



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

How the body monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Effective risk management enables councils to improve governance, stakeholder confidence and trust; set strategy and plans through informed decision making; evaluate options and deliver programmes, projects, and policy initiatives; prioritise and manage resources, manage performance, resources and assets; and achieve outcomes.

The Council's Risk Management Strategy and Policy Framework (March 2016) needs updating. It should cover an escalation process between the strategic and operational risk registers, including risk data transfer and ownership, risk types and agreed risk appetites for each type. It needs to include risk tolerances for each level of risk - strategic, programme and project, and operational or service risk. Risk responsibility needs updating which changed in 2017.

The current Strategy identifies the responsibility of the Cabinet to approve the Risk Management Policy and Strategy, set the risk appetite, approve the Strategic Risk Register (SRR) and monitor progress in managing strategic risk.

The SRR is a critical tool for the Council to capture and report on risk activity and their risk profile. The SRR format needs improvement to clearly separate risks from their causes and impact. It needs to include whether they are dynamic or static risks, risk type, risk appetite, cause. It also needs to set out likelihood, impact, score, mitigation to date, likelihood and impact scores after mitigation, direction of travel, planned completion date, linked risks.

Climate change impacts, and the Council's ability to mitigate these, are not on the Council's SRR despite the Council's identification of significant flood risks and its Adaption Strategy having an action to ensure climate risks are embedded into corporate risk assessments.

The Cabinet needs integrated quarterly reporting on performance, finance and risk. We found there is good conversation on risk management at the Audit and Accounts Committee particularly relating to finance and contract risks.

Since 2017, Internal Audit has led risk management. Internal audit should be separated from risk management responsibility because Audit is the third line of defence and independent of the Council's risk management arrangements.

Corporate risks and their scores are not integrated into report writing for committee papers giving members no risk assurance or understanding of the risk impact on decision-making. Risk management considerations are not included in Committee sign-off sheets. Risk scores, mitigations and assurances are not present in performance reports. We also found that risks identified in the annual budget report to Full Council are not sufficiently detailed and need consistency with the revised SRR reporting format.

We make an improvement recommendation about risk management arrangements on page 27.

The Internal Audit Service is a shared service with Cannock Chase District Council. ICT audits are delivered by an external specialist auditor. Internal audit gave partial assurance opinion for the Council's governance arrangements in 2021-22. In 2021-22, internal audit only completed 17 internal audits, or 74% of the agreed plan compared with 89% in 2020-21. This was capacity related which has been addressed for the 2023-24 audit period.

On 26 July 2022, the Audit and Accounts Committee received the Annual Governance Statement (AGS) for 2021-22, which concluded reasonable assurance. It identified the finance system implementation and learning, lack of cyber security and information governance as the key issues to address.

Governance (2 of 3)

How the body monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud (continued)

The External Quality Assessment (EQA) determines the performance of the internal audit function at least every five years. The outcome of the Assessment was presented to the Audit and Accounts Committee on 16 November 2022. The internal audit shared service is generally conforming with the Public Sector Internal Audit Standards and demonstrating a high standard of delivery. One area of non-conformance with the standards was relating to PSIAS 1110 Organisational Independence. The Standards require the “Chief Audit Executive” to report functionally to the Board including the Audit Committee Chair and Chief Executive commenting on the Performance Development Review (PDR). It was agreed at Audit Committee the Lead Officer would consult the Audit and Accounts Committee Chair prior to the PDR.

On 20 June 2023, the Audit and Accounts Committee received the internal audit report for 2022-23. The Audit team had completed 91% of its planned work in the year. The Committee also saw the Annual Governance Statement for 2022-23. It identified reasonable assurance but included several actions to address the Council’s policy framework and finalise the finance system implementation and still identified the need for ICT improvement.

In our AAR 2020-21 we identified that internal audit recommendations relating to Critical Information Systems not supported by IT, Cyber and Network Security and Information Governance had not been followed up and raised an improvement recommendation which has not been actioned. These three issues were still present in 2021-22 and 2022-23.

A further Internal Audit carried out on Cloud Strategy and Security in 2021-22 gave partial assurance and found the Council’s policy for hosted solutions was not updated since 2015 and was not compliant with current security guidance and technology solutions. We found in both years, ICT did not undertake performance monitoring or reporting to address security weakness identified from the security monitoring software or to improve the Council’s ICT security. The Council’s Technology Strategy was out of date in both years and access to critical systems and data by non-corporate devices was possible during 2021-22 and 2022-23.

In March 2023, the recommendations concerning the Critical Information Systems not supported by IT were still outstanding and the Audit and Accounts Committee were told a further ICT audit received limited assurance. The ICT third party supplier audit had limited assurance with data protection impact assessments, risk assessments and signed confidentiality agreements not always completed or available for third party data transfers.

In June 2023, the Information Governance Framework due to be completed in 2022-23 was still outstanding as was an IT Contracts register and the IT security policy. We found significant weaknesses in the Council’s ICT control environment. It is our opinion that these weaknesses are caused by a lack of leadership and capacity in the ICT team and could leave the Council open to a greater risk of cyber-attacks, fraud and data governance breaches if not addressed.

We conclude that the Council has significant weaknesses in internal controls, which could expose it to significant financial or service loss including fraud and cyber-attacks and it has failed to follow-up on external audit recommendations in these areas. We make a key recommendation on page 11.

In our AAR 2020-21 we found there was no central coordination of the National Fraud Initiative (NFI) data matches and no dedicated counter fraud officer with reliance on services to review the datasets with no formal reporting or monitoring. We raised an improvement recommendation which is still outstanding. This was also raised by a member of the Council’s Accounts and Audit Committee on 16 November 2022. In 2021-22 and 2022-23, the Council also only had eight days of internal audit time dedicated to fraud risks. Responsibility for fraud is shared between Internal Audit and the compliance officers in the Revenues & Benefits Team who mitigate risk in Council Tax fraud.

The Council’s arrangements to prevent and detect fraud are significantly out of date. They rely on an Anti-Fraud and Bribery Framework and a Confidential Reporting Framework both from 2014. These Frameworks need bringing up to date and aligning with those of Cannock Chase District Council given the shared arrangements.

Procurement fraud is the second highest fraud volume area according to CIPFA’s Fraud and Corruption Tracker (2020) but no work to identify fraud in this area was taking place in either year. Work to detect fraud also needs to extend to the Council’s financial processes. We conclude the Council does not have adequate arrangements in place to detect and prevent fraud.

We found significant weaknesses in the Council’s internal arrangements for fraud detection which could leave it exposed to fraud and financial loss. We make a key recommendation on page 13.

We also make an improvement recommendation for the Council to adopt the CIPFA 2014 code of practice on managing the risk of fraud and corruption and integrate fraud and anti-corruption risks with the revised risk management approach (see page 27).

Governance (3 of 3)

How the body approaches and carries out its annual budget setting process

For 2021-22 and 2022-23, in common with other councils, the budget process starts in Autumn, and is refined once the Government's local government settlement is agreed in January or early February. Portfolio budgets are discussed ahead of the Full Council meeting with the service scrutiny committees, then with Resources Scrutiny and the Cabinet.

In 2021-22 and 2022-23 internal and external engagement in the budget setting process was not adequate. In both years, the process was too finance led. The finance team reviewed existing budgets, amended for pay awards, inflation and income from fees and charges, they did not engage with budget holders or carry out any public budget consultation.

The Council did not have MTFS in either year but provided indicative budgets for the next two years based on estimates. It did not use risk and sensitivity analysis in setting its budget.

Finance team capacity is the reason for the lack of both a MTFS and engagement on the annual budget process. **We include this in our statutory recommendation relating to finance on page 7.**

How the body ensures effective processes and systems are in place to ensure budgetary control

We discuss the lack of financial reporting and engagement with budget holders on pages 20 and 21 and make a statutory recommendation on financial planning and monitoring on page 7.

Once reestablished the financial reports need to integrate with performance and risk management and include service and workforce information to enable members to challenge effectively. **We include this in our key recommendation on performance management on page 15.**

In our AAR in 2020-21 we recommended a review of finance team capacity to reduce risk from unplanned absences and increase resilience. Senior staff capacity in the Council was significantly strained during 2021-22, and this particularly impacted finance.

The introduction of the new finance system and the lack of dedicated resource to scope and manage its implementation put considerable pressure on the finance team in 2021. This was compounded by the reliance on a small number of individuals, including the S151 who left early in 2021. These factors led to reduced capacity to deal with business-as-usual financial operations. Internal interim arrangements were put in place in Quarter 1 of 2021-22 but for personal reasons this ended ten months later and the postholder returned to their substantive role.

Alternative interim arrangements were put into place on 1 February 2022. Further capacity challenges were caused by DLUHC's capital grant reporting requirements on the FHS Programme.

The lack of capacity in finance extended into 2022-23 and 2023-24. On 8 December 2022, the new Deputy Chief Executive (Resources) and S151 joined the Council. This is a joint post with Cannock Chase District Council. In September 2023 he started a review of finance team capacity particularly around monitoring.

Both years had delayed budgets due to the finance system implementation. **The 2021-22 and 2022-23 budgets were both closed by September 2023. The ongoing lack of detailed financial monitoring has impacted on delivering an efficient budget in both 2021-22 and in 2022-23 and we make a statutory recommendation financial planning and monitoring on page 7. These issues led to a 12-month delay to the financial statements audit for 2021-22 with ongoing challenges in preparing draft financial statements for 2022-23 also caused by finance team capacity at the Council.**

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour

The Local Government Association (LGA) is the national membership body for local authorities working on behalf of member councils to support, promote and improve local government. It recommends that councils have a Corporate Peer Challenge (CPC) every five years. In November 2021, the LGA CPC report for the Council identified that senior managers and members provided good leadership and set the right standards of behaviours.

In June 2023, the Council identified that the Officer Code of Conduct, 2021, still needed updating to reflect hybrid working and to include the shared staffing arrangements with Cannock Chase District Council. **We raise an improvement recommendation to update codes of conduct in a timely way (page 29).**

We identify a significant weakness in compliance with the CIPFA Financial Management Code in 2021-22 and in 2022-23 including no MTFS, out-of-date procurement and financial regulations, no CIPFA self-assessment, no formalised budget monitoring, poor capital programme management and reporting, no mid-year treasury management reporting in 2021-22. The lack of mid-year Treasury Management Reporting also means the Council was non-compliant on the Treasury Management Code in 2021-22. We also found the contracts register is out of date from 2021 and the Council is not fully compliant with the Local Government Transparency Code as purchasing card information is from 2014. **We addresses these weaknesses in our statutory recommendation on page 7 concerning financial planning and monitoring and in our improvement recommendation of page 33 concerning procurement and contract management.**

Improvement recommendation 2



The Council needs to improve risk management by:

- updating the Risk Management Strategy and Policy Framework including adding an escalation process between the strategic and service risk registers, including risk data transfer and ownership, risk types and agreed risk appetites for each type. The Strategy needs to set the risk levels - leadership / strategic, programme / project level and service level, an escalation process between the corporate and service risk registers, and risk types and agreed risk tolerances for each. It also needs to update risk responsibility which changed in 2017.
- separating out responsibility for risk management from internal audit.
- formatting the SRR to separate risks from their causes and impact and include whether risks are dynamic or static, identify for each risk type and appetite. It also needs to set out likelihood, impact, score, mitigation to date, likelihood and impact scores after mitigation, direction of travel, planned completion date, linked risks and provide members and the leadership team with a direction of travel at least quarterly.
- ensuring services and projects and programmes have their own effective risk management arrangements that mirror changes to the SRR.
- integrating corporate risks, their references and their scores into all report writing for committee papers giving members risk assurance and helping them to understand the impact of their decision-making on risk and include risk considerations in committee paper sign-off.
- integrate risk, performance and financial reporting and report these quarterly to the Cabinet.
- ensuring risks identified in the annual budget report are sufficiently detailed and consistent with the SRR revised format.
- significantly improving risk management arrangements for capital projects.
- adding risks on climate change mitigation and net zero to the SRR and reviewing other risks considering the recommendations identified in this AAR.
- adopting the CIPFA 2014 code of practice on managing the risk of fraud and corruption and integrate fraud and anti-corruption risks as part of risk management improvement.

| | |
|--------------------------|--|
| Audit year | 2021-22 and 2022-23 |
| Why/impact | Effective risk management enables councils to improve governance, stakeholder confidence and trust; set strategy and plans through informed decision making; evaluate options and deliver programmes, projects, and policy initiatives; prioritise and manage resources, manage performance, resources and assets; and achieve outcomes. |
| Auditor judgement | Risk management needs improvement |
| Summary findings | The Council's Risk Management Strategy and Policy Framework (March 2016) are out of date and need updating. The format of the strategic risk register also needs improvement as we identify above. Risk is not embedded into committee reports and do not provide members with an understanding of the risk of their decision-making. Risk, performance and finance reporting needs to be integrated for cabinet and reported quarterly. |

Improvement recommendation 2

Management Comment

Agreed.

The Risk Management Policy and Strategy is currently being updated and will be completed early in 2024. Our new risk management framework will be based on the ALARM model.

As part of our review of the risk management framework, we will revise the format of the SRR; the arrangements for managing project risks (including capital schemes); and the presentation of the risks in the annual budget report. While a review of our SRR will be undertaken as part of the wider review of the policy and strategy, a number of the suggestions made in the recommendation are already in place e.g. likelihood, impact, risk scores, mitigations, direction of travel etc. Furthermore our reports to committee, already include a section for risk management implications.

Aligning our risk reporting with performance and finance, will be done as part of our transformation work but is likely to take longer to develop.

We do not plan to remove risk management from the role of the Chief Internal Auditor as this is within accepted practice of both the Institute of Internal Auditors and the Chartered Institute of Public Finance and Accountancy. Safeguards are in place, with audits of the risk management process being outsourced, rather than being undertaken by the in-house audit team.

Improvement recommendation 3



Governance

Improvement Recommendation 3

The Council should ensure its Officer Code of Conduct is updated to consider the shift to hybrid working arrangements and the integration of staffing arrangements with Cannock Chase District Council. It also needs to ensure officers are aware of these updates.

Audit year

2022-23

Why/impact

The shift to hybrid working creates additional risk to the Council, this together with the next phase of shared working arrangements with Cannock Chase District Council means it needs to update, and communicate, the Code of Conduct for employees.

Auditor judgement

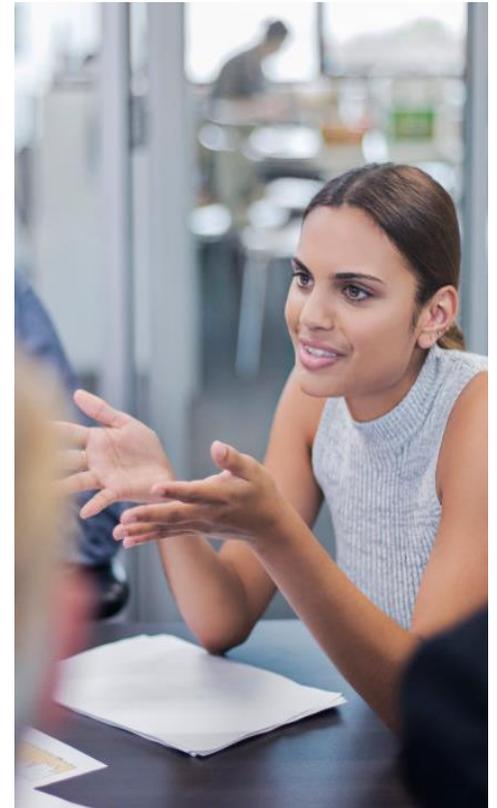
The Council needs to update its Officer Code of Conduct to reflect the greater risk from hybrid working and to align the Code of Conduct across both Councils.

Summary findings

In June 2023, the Council identified the Officer Code of Conduct, 2021, still needed updating to reflect hybrid working and to include the shared staffing arrangements with Cannock Chase District Council.

Management Comments

Agreed - the Officer Code of Conduct will be reviewed in 2024/25 as set out in the Annual Governance Statement. Work on developing the organisations' vision, culture and values need to be completed before this.



Improving economy, efficiency and effectiveness (1 of 3)



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

How financial and performance information has been used to assess performance to identify areas for improvement

The Council has a three-year Corporate Business Plan for 2021-2024 with four objectives:

- delivering innovative, sustainable economic and housing growth to provide income and jobs.
- improving the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing resilient communities that promote health and wellbeing.
- tackling Climate Change by implementing its Climate Change and Green Recovery objectives.
- being a well-run, financially sustainable, and ambitious organisation, responsive to the needs of its customers and communities.

The Council planned to introduce an annual delivery plan performance managed by the senior leadership team and elected members and shared annually with residents, but this has not yet happened. The Council has no golden thread in place for performance management in 2021-22 or in 2022-23. This thread would link the Council's objectives to what each of its services does and how the budget is spent.

In 2022-23 the Resources Scrutiny Committee received quarterly performance updates but only on Objectives 3 and 4 of the Corporate Business Plan. Performance is presented as key performance indicators (KPIs) and narrative updates, but reports do not include RAG (red-amber-green) rating or performance benchmarking, no trend data or comparison with previous year. The KPIs reported vary between period and the format is not consistent across scrutiny committee areas. The Cabinet saw no performance reporting in either year.

In 2019 the Council declared a climate emergency and agreed a net zero target by 2040. **In 2021 the Council has an action plan including the development of an adaption strategy which was delivered. Achieving this is not costed in the budget which we include in our statutory recommendation on financial planning and monitoring on page 7.**

The Council relies on its Leisure and Cultural Services contractor for an annual report to performance manage Objective 2 of its Corporate Business Plan. The Council also relies on its waste contractor for an annual waste performance report. Neither report is verified by the Council. This reliance on external contractors is not adequate performance management. These reports were shared with Scrutiny.

We find performance management arrangements are weak in both 2021-22 and in 2022-23 with no evidence the Council has a performance management framework to deliver its Corporate Business Plan. A lack of effective performance management meant the Council was reactive to challenges rather than proactively forward planning or anticipating issues before they emerged. The Council was not able to use performance data to drive improvement or achieve value for money or to challenge its contractors. It needs to integrate performance, finance and risk reporting to ensure it is focusing spend on priorities to drive improvement.

We identify performance management as a significant weakness and raise a key recommendation on page 15.

Improving economy, efficiency and effectiveness (2 of 3)

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council does learn from external sources. It had their last LGA CPC review in 2018 and a follow-up visit was held in November 2021 which found the Council had made significant progress on its recommendations, despite the huge challenges and difficult circumstances of the Covid-19 pandemic. The follow-up review identified financial sustainability and the ongoing partnership with Cannock Chase District Council as key challenges, particularly relating to capacity.

But it does not review and challenge strategic priorities and cost-effectiveness of existing activities, identifying those which do not contribute sufficient value. It also does not consider lower cost options for service delivery or use financial benchmarking. We include these improvements in our key recommendation on performance management on page 15.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified

The Council has shared some services with Cannock Chase District Council since April 2011. As already noted, during 2021 it began sharing the Chief Executive on an interim basis and on 6 December 2022, Full Council agreed to extend its service sharing with Cannock. Members discussed the business case for full sharing arrangement between both Councils, with a shared Chief Executive and Leadership Team and agreed this model would maximise benefits from the sharing arrangements. The sharing agreement includes all services apart from the Housing Revenue Account in Cannock, both housing registers and elections.

The first two key stages are completed with the establishment of a joint Leadership Team (with effect from 1 April 2023) and a legal agreement setting out the framework and authority for sharing. The two new Deputy Chief Executive are in post to provide a new strategic level of support to Members and the Chief Executive.

The next step is to complete the next tier management restructure, with one post outstanding in September 2023, and start bringing teams together. Full transformation is planned over three years. The two Councils have established a Shared Services Board with members from each Council and the joint Leadership Team. The Deputy Chief Executive (Resources) is developing a strategic transformation plan and is bringing in a transformation resources and skills. One of the first priorities will be to align pay and jobs. Transformation costs are funded from ear marked transformation reserves. Stafford Borough Council has a transformation reserve of £0.365m in each year for the next four years. Savings from shared services will be allocated to each Council based on the contribution made to transformation costs.

In June 2022 members of the Resources Scrutiny Committee were told the Council has set-up a Climate Change and Green Recovery Community Panel where residents can work with the Council to develop and deliver green initiatives. The Council is also working in collaboration with the Stafford Chamber to develop an initiative to help local businesses become more sustainable.

Where the body commissions or procures services, how the body assesses whether it is realising the expected benefits

The Council does not demonstrate effective leadership for procurement and contract management. It has a no intelligent client for procurement and no procurement strategy. The Council's Procurement Regulations were last updated in May 2021. These do not reflect the changes since the UK left the EU. Threshold in the Regulations are out of date. There is no mention of using the UK's e-notification service, Find a Tender, rather than the EU Official Journal. They also need to reference the National Procurement Policy Statement, June 2021 and consider the LGA national procurement framework from 2018, updated in 2022. The Strategy needs to address social value, climate change and the risk of modern slavery. It also needs to include how it meets the Local Government (Transparency Requirements) (England) Regulations 2015.

Improving economy, efficiency and effectiveness (3 of 3)

Where the body commissions or procures services, how the body assesses whether it is realising the expected benefits (continued)

The Council's Contracts Register (2021) is also out of date and in need of improvement. Procurements are not planned across the Council and there is a reliance on waivers and urgent decisions. For tenders over £50k the Council gets procurement support from Staffordshire County Council who administers the tendering process, but officers are expected to know who to go to.

In June 2023, internal audit identified some common reoccurring procurement weaknesses from their work in previous years, including procurement processes not always followed correctly and an overreliance on waivers. This meant contracts were not always market tested or work was issued outside of contract agreements or on contracts that had expired and to regular contractors without following a tender exercise. They also found a lack of knowledge of current contracts, end dates and the timescales needed to re-tender major works.

The Council is aware it needs improvement in these areas and includes the Contracts Register in its planned governance improvements for 2023-24 and 2024-25.

The Council needs to improve its procurement and contract management arrangements and we raise an improvement recommendation on page 33.

A procurement strategy would also help the Council to hold its contractors to account by improving the Council's contract management arrangements. The two largest contracts are the Leisure and cultural services contract with Wealden Leisure Ltd trading as Freedom Leisure Concession for £20m until November 2027 and the waste contract with Veolia (ES) UK Ltd for £61.95m until March 2028 with a further 10-year extension possible. Arrangements for members to monitor the performance of key contractors is not adequate. There is no independent verification process carried out by the Council to confirm the accuracy and validity of the performance information provided by the Leisure and Cultural Services Contractor this means the Council is not performance managing Objective 2 of its Corporate Business Plan. **We include this in the key recommendation on performance management relating on page 15.**

The Council has given significant financial support to its Leisure Services provider since 2021 which continued into 2023-24. This was to mitigate the impact of COVID-19 and because of the energy price increases and the costs associated with the annual Shakespeare production. The Council is using its Contract Reserve up to £0.690m to fund this support in addition to the £0.40m it gave the contractor during the period 2021-22 and 2022-23. The provider has agreed a series of savings options with the Council during the period to supplement its support. It is considered that failure to continue to work in partnership and support its leisure services provider could have had a serious impact upon the Council's leisure provision. **The leisure contract will require robust strategic monitoring in 2023-24 to identify further savings, scrutinise performance and costs of the contract, and risk. We recommend closer member scrutiny in this process and include it in our key recommendation on performance management on page 15.**

Improvement recommendation 5



Improving economy, efficiency and effectiveness

Improvement Recommendation 5

The Council needs to improve its procurement and contract management arrangement by;

- Developing a procurement strategy.
- ensuring the contracts register is updated, monitored, kept updated used by all services.
- ensuring it fully meets the Local Government (Transparency Requirements) (England) Regulations 2015 legislation.
- having a suitably trained client lead for procurement and contract management.
- developing a procurement pipeline to improve planning and reduce the reliance on waivers and urgent decision-making.
- providing training for officers and members on procurement and contract management to enable them to fully understand their responsibilities for social value and VFM.
- ensuring the Council's shared arrangements for fraud also include procurement and contract management.
- complying with the Local Government Transparency Code by ensuring P card expenditure is kept updated.

| | |
|--------------------------|---|
| Audit year | 2021-22 or 2022-23 |
| Why/impact | The Council has an important responsibility to ensure that procurement and contract management arrangements maximise the use of public finances, that value for money is achieved, and procurement delivers strategic priorities. |
| Auditor judgement | The Council's arrangements for procurement and contract management are not adequate. |
| Summary findings | The Council does not have a Procurement Strategy. It has an out-of-date contracts register. It has no client lead for procurement and contract management and relies on Staffordshire County Council for procurement advice. It has no planned procurement programme. Procurement processes are not always followed correctly and an overreliance on the use of waivers. This meant contracts were not always market tested fully or work was issued outside of contract agreements or on contracts that had expired. Lack of knowledge of current contracts, end dates and the timescales needed to re-tender major works. |

Improvement recommendation 5

Management Comments

The Council does have a client lead for procurement. Procurement sits within the remit of the Head of Transformation & Assurance, who acts as the client lead and has a working knowledge of procurement requirements. However, we do not consider it necessary or realistic to expect the client lead to be a procurement expert as the County Council's procurement team are contracted to provide this expertise. The client lead has sufficient knowledge and experience to manage the arrangement with the County's procurement team and provides ad hoc advice to officers.

While the Procurement Regulations are out of date, our arrangement with the County Council ensures that we are legally compliant with all tender processes they provide support for. The Procurement Regulations will be updated early in 2024-25 to comply with the new legislation being introduced. Consideration will be given as to whether to adopt a standalone procurement strategy or whether to embed the key elements into the Procurement Regulations. Training in procurement and contract management will be delivered once the procurement regulations are updated and approved.

The Contracts Register will be updated by end of March 2024 and used to develop a procurement pipeline for 2024-25. Arrangements for compliance with the Transparency Code will be put into place for 2024-25.

All procurement waiver requests need to meet the requirements set out in the Council's Procurement Regulations. Waivers requests are subjected to challenge and 2 out of 3 senior/statutory officers have to authorize them.

Follow-up of previous recommendations

| Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? | |
|----------------|--|--------------------------------------|---|--|---|--|
| 1 | The Council should put in place a more detailed and regular process for the monitoring of budget performance by members, including quarterly reporting to Scrutiny Committees, Cabinet or Council throughout the year. The summary information provided must be sufficiently informative to enable performance against net spend by service, income, efficiency savings and any mitigating action taken by the Council to be properly examined and challenged. | Financial Sustainability Improvement | 16 November 2022 at Audit Committee in the AAR 2020/21. | No formal budget monitoring in 2021-22 or in 2022-23 | No | Yes, we make a statutory recommendation on financial planning and monitoring on page 7. |
| 2 | Internal audit recommendations including those raised but yet to be implemented due to the pandemic should be implemented promptly. Some of these recommendations include: i. Critical Information Systems not supported by IT ii. Cyber and Network Security iii. Information Governance | Governance Improvement | 16 November 2022 at Audit Committee in the AAR 2020/21. | Internal audit have a new system to track and escalate audit recommendations since November 2022 but no progress on these audits. | No | Yes, the issues relating to ICT controls are still not addressed and continue in 2023-24. We make a key recommendation on page 11. |
| 3 | The Council may wish to action the one area of significant non-compliance with standards raised by the Public Sector Internal Audit Standards (PSIAS) in relation to PSIAS 1110 <i>Organisational Independence</i> of the internal audit. The standards require the “Chief Audit Executive” to report functionally to the Board and this includes the Audit Committee Chair and Chief Executive commenting on the Performance Development Review (PDR). | Governance Improvement | 16 November 2022 at Audit Committee in the AAR 2020/21. | The Lead Officer has agreed to discuss the performance of the Internal Auditors prior to the PDR with the Chair of the Audit Committee | Audit Chairs to be consulted as part of the PDR process agreed on 16 November 2022. | No |
| 4 | The Council may wish to ensure adequate follow-up on the NFI datasets released by the Cabinet Office NFI team and report to the appropriate committee on the work undertaken. | Governance Improvement | 16 November 2022 at Audit Committee in the AAR 2020/21. | We found a lack of resource for fraud detection in the Council. | No | Yes, we also identify other concerns relating to fraud and raise a key recommendation on page 13. |

Follow-up of previous recommendations

| Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? | |
|----------------|---|---|---|---|--------------------------|--|
| 5 | The Council should monitor the use of retrospective purchase orders (POs). | Economy, efficiency and effectiveness Improvement | 16 November 2022 at Audit Committee in the AAR 2020/21. | No progress | No | Yes, we include this in our statutory recommendation of financial planning and monitoring on page 7. |
| 6 | The Council should review the capacity of the Finance team with a view to ensuring resilience and removing risks which could arise from unplanned absences of individuals whom the Council rely on for financial information. | Economy, efficiency and effectiveness Improvement | 16 November 2022 at Audit Committee in the AAR 2020/21. | The Deputy Chief Executive (Resources) joined in December 2022. | Yes, in part for 2022/23 | Yes. The Deputy Chief Executive (Resources) is reviewing capacity, but this is ongoing in September 2023. |
| 7 | The Council should undertake an independent review of the issues that led to difficulties with the implementation of the new finance ledger which resulted in its inability to produce some time-critical business management information for decision makers and statutory reports. The review should learn lessons to improve the Council's project and contract management procedures. | Economy, efficiency and effectiveness Improvement | 16 November 2022 at Audit Committee in the AAR 2020/21. | No progress | No | Review not yet commissioned. This relates to the leadership and capacity of the finance team during the procurement of the system and its implementation. Leadership is now strengthened with the new Deputy Chief Executive (Resources) who intends to learn lessons. |

Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

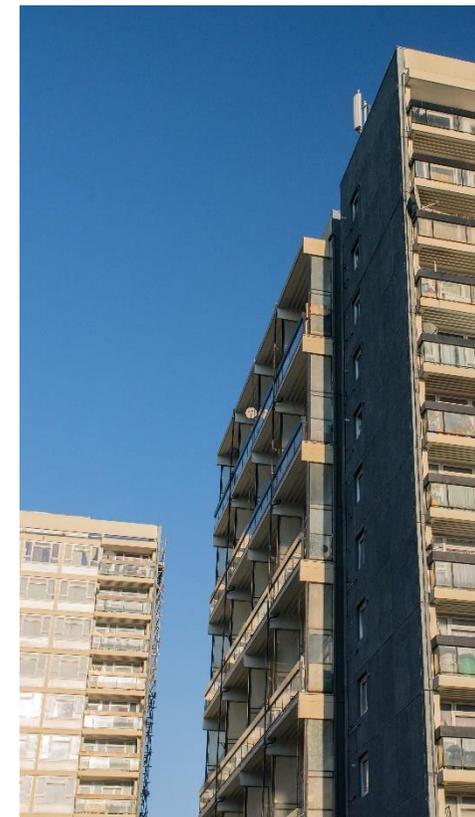
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the District Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors :

| Type of recommendation | Background | Raised within this report | Page reference |
|------------------------|--|---------------------------|-----------------------------|
| Statutory | Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. | Yes | 7 |
| Key | The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money, they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’. | Yes | 9-16 |
| Improvement | These recommendations, if implemented should improve the arrangements in place at in the Council but are not a result of identifying significant weaknesses in the Council’s arrangements. | Yes | Pages 23, 27-29, and 33-34. |

Agenda Item 3(b)**The Council's Response to the Auditor's Annual Report 2021/22 and 2022/23**

| | |
|-------------------------|---|
| Committee: | Joint Meeting of the Cabinet and Audit and Accounts Committee |
| Date of Meeting: | 13 February 2024 |
| Report of: | Deputy Chief Executive (Resources) and S151 Officer |
| Portfolio: | Resources Portfolio |

1 Purpose of Report

- 1.1 To set out the Council's response to the External Auditor's Annual Report (AAR) for 2021/22 and 2022/23, and the proposed actions.

2 Recommendations

- 2.1 That Members note the findings, recommendations and management comments set out in the AAR for 2021/22 and 2022/23.
- 2.2 That Members recommend to Council accepting the Statutory Recommendation set out in the AAR for 2021/22 and 2022/23.
- 2.3 That Members recommend to Council the approval of the improvement plan attached as an **APPENDIX** to address the issues identified in the AAR.
- 2.4 That Members note the additional resources required to address the issues identified in the AAR as set out in 5.9, which are provided for in the budget for 2024/25.

Reasons for Recommendations

- 2.5 The AAR has identified several significant issues relating to the Council's financial and governance arrangements which need to be addressed as a priority.

3 Key Issues

- 3.1 The Council's External Auditors, Grant Thornton, have recently concluded their AAR of the Council covering the period 2021/22 and 2022/23. Their report on the outcome of the review is a separate item on the agenda.

- 3.2 The report has highlighted several significant issues relating to the Council's financial and governance arrangements and made recommendations for addressing these. One of these recommendations is statutory and is being addressed as a priority.
- 3.3 The majority of the financial and governance findings set out in the AAR have already been reported to the Audit and Accounts Committee through the quarterly reports from the Chief Internal Auditor and Risk Manager and/or the Annual Governance Statements. However, progress in addressing these issues over the last few years has been hampered by capacity issues and this is acknowledged in the External Auditor's report.
- 3.4 An improvement plan to address the financial and governance issues has been drawn up and is set out at in the **APPENDIX**. Additional resources are required to deliver the improvement plan and provision has been made for these in the budget approved by Council for 2024/25. The funding for the financial and governance issues will be matched by Cannock Chase Council as appropriate.

4 Relationship to Corporate Priorities

- 4.1 Good governance and financial management specifically links to the Council's priority to be "a well-run, financially sustainable and ambitious organisation, responsive to the need of our customers and communities and focussed on delivering our outcomes". It also underpins the delivery of the Council's other corporate priorities and operational services.

5 Report Detail

- 5.1 As part of the work of the External Auditors, they are required to undertake a review of the Council's arrangements for Value for Money. This requirement was re-introduced to their work in 2020/21.
- 5.2 The first review in 2020/21 was relatively light touch but the review covering 2021/22 and 2022/23 has been much more in-depth and the standards expected have increased. This partly reflects a change in financial standards and the environment in which local government is operating with several Councils having issued s114 notices.
- 5.3 The AAR covers the years 2021/22 and 2022/23 has identified several areas of concern primarily:
- (i) the delay in preparation of and audit of final accounts and budget monitoring; and
 - (ii) weaknesses in our arrangements for our IT systems, fraud, risk management, procurement, performance management and managing our workforce.

- 5.4 The External Auditors have acknowledged that there has been a lack of capacity in key service areas to address these issues.
- 5.5 None of the issues themselves are new; they were identified in the previous AAR, have been raised in reports issued by Internal Audit and/or have been raised as significant governance issues in the Annual Governance Statement over the same period.
- 5.6 However, the External Auditors have now raised the profile of these issues and the need to address them to prevent significant governance failings. One statutory recommendation has been made and this is being progressed as a priority.
- 5.7 Whilst the Council's response to each of the recommendations is set out in the AAR, a separate improvement plan setting out the actions to be undertaken is attached as an **APPENDIX**.
- 5.8 Progress in delivering the actions set out in the improvement plan will primarily be overseen by:
- The Leadership Team;
 - Audit and Accounts Committee.

The Audit and Accounts Committee will escalate any concerns to Cabinet and the Cabinet will also receive periodic updates.

- 5.9 As referred to in 5.4, lack of capacity has been a key factor in the slow progress in addressing the issues. Consequently, to move forward and address the issues identified in the AAR, additional resources are going to be needed in key corporate services, primarily Finance and Transformation and Assurance. The corporate functions have lost considerable capacity over the last 12 years; the effect has been cumulative with savings taken as part of shared services, the outsourcing of leisure services and successive savings as part of the annual budget setting processes. In addition, corporate services have seen an increase in workload as a result of the Council's success in achieving funding from the Future High Streets Fund and the Levelling Up Fund for the regeneration of Stafford Town Centre, UK Shared Prosperity Funding etc.
- 5.10 The additional resources needed will be primarily focussed around:
- Finance - increased capacity, development of the finance system, budget monitoring, training for managers and supporting for key projects; and
 - Transformation and Assurance - development and maintenance of the contracts register, performance, risk and assurance reporting and project management.

Provision for the additional resources has been included in the budget for 2024/25. £159,000 has been included for Finance and £100,000 for Transformation and Assurance. This funding is to be matched proportionately by Cannock Chase Council as part of the shared services arrangements. The additional resources will be for both staffing and IT systems.

6 Implications

6.1 Financial

The financial implications are referred to throughout the report.

6.2 Legal

Under the Local Audit and Accountability Act 2014, statutory recommendations made by a local auditor must be considered at a Council meeting within one month of receipt. The Council must consider whether the recommendation is to be accepted and what, if any, action to take in response. The report will, therefore be considered at the next full Council meeting.

6.3 Human Resources

None

6.4 Risk Management

Failure to address the statutory recommendation set out in the External Auditors' report would put the Council at risk of Judicial Review / Intervention. There is also a risk to the Council's reputation and relationship with partners, ability to attract funding etc. These risks are mitigated by the actions set out in the Improvement Plan.

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

Appendix: Improvement Plan

8 Previous Consideration

None

9 Background Papers

AAR for 2020/21 and 2021/22 - 2022/23

Internal Audit Progress Reports and the Annual Audit Report to the Audit Committee for 2020/21, 2021/22 and 2022/23.

Annual Governance Statement 2022/23

Contact Officer: Judith Aupers

Telephone Number: 01543 464411

Report Track: Joint meeting of the Cabinet and Audit and Accounts Committee 13 February 2024

Council 27 February 2024

Key Decision: No

Improvement Plan

| Action | Lead Officer | Timescale |
|--|---|---------------------|
| Financial Sustainability (Statutory Recommendation 1) | | |
| Restructure of the Finance Team and creation of additional capacity | Deputy Chief Executive (Resources) & S151 Officer | Quarter 1 - 2024/25 |
| Commence recruitment to new Finance team structure | Deputy Chief Executive (Resources) & S151 Officer and Deputy S151 Officer | Quarter 2 - 2024/25 |
| Lesson learnt exercise to be undertaken of implementation of the finance system | Deputy Chief Executive (Resources) & S151 Officer | Quarter 2 - 2024/25 |
| Implementation of remaining module of the finance system, ongoing development and maximising use of system functionality | Deputy Chief Executive (Resources) & S151 Officer | Quarter 4 - 2024/25 |
| Training of managers in budget management and use of the new finance system. | Deputy Chief Executive (Resources) & S151 Officer | Quarter 2 - 2024/25 |
| Follow-on zero-based budgeting session with managers to continue work started as part of the 2024/25 budget setting process | Deputy Chief Executive (Resources) & S151 Officer | Quarter 3 - 2024/25 |
| Medium Term Financial Strategy for 2024/25 to 2026/27 drafted and approved by Cabinet and Council. Modelling, assumptions and risk assessment included as part of the budget report. MTFS includes assessment of likely future government funding. | Deputy Chief Executive (Resources) & S151 Officer | Completed |
| Capital Strategy to be updated in accordance with the revised Prudential Code. | Deputy Chief Executive (Resources) & S151 Officer | Completed |

| Action | Lead Officer | Timescale |
|---|---|---|
| Bring treasury strategy and its reporting to members up to date | Deputy Chief Executive (Resources) & S151 Officer | Completed |
| Regular performance monitoring to be re-established with budget managers and Leadership Team. | Deputy Chief Executive (Resources) & S151 Officer | Quarter 1 - 2024/25 |
| Performance reporting for Cabinet and Scrutiny to be developed. This will be done alongside the review and development of performance and risk reporting. | Deputy Chief Executive (Resources) & S151 Officer | Quarter 4 - 2024/25 |
| Reporting on the delivery of savings to be established and discussed at Strategic Leadership Team meetings. Where appropriate, project plans will be developed to support the delivery of significant/complex savings. | Deputy Chief Executive (Resources) & S151 Officer | Quarter 1 - 2024/25 |
| Produce draft financial statements in line with statutory requirements and working with external auditors to deliver audits effectively. (Decision to be made on outstanding audits as there is a consultation taking place as to how to clear the backlog of audits nationally at present) | Deputy Chief Executive (Resources) & S151 Officer | This is to be discussed with Azets as to approach |
| Draft accounts published up to 2023/24 | Deputy Chief Executive (Resources) & S151 Officer | Quarter 4 - 2023/24 |
| Review of Financial Regulations | Deputy Chief Executive (Resources) & S151 Officer | Quarter 2 - 2024/25 |
| Training for managers on Financial Regulations | Deputy Chief Executive (Resources) | Quarter 2 - 2024/25 |

| Action | Lead Officer | Timescale |
|---|--|----------------------------|
| Corporate Service Transformation & Efficiency Programme (Key Recommendation 1) | | |
| <p>Process to be established for developing a service transformation and efficiency programme.</p> <p>Initial steps for both:</p> <ul style="list-style-type: none"> • a discussion with the Cabinet to review priorities and key projects; • engagement with Heads of Service and Service Managers to review current service levels for statutory and discretionary services (to include high level benchmarking) - this will be a precursor to bringing the services together and establish the baseline for service transformation (this will build on the initial work done on SLAs). • Range of options for efficiency savings and transformation <p>Transformation:</p> <ul style="list-style-type: none"> • Transformation options to be assessed and added to transformation programme for prioritisation. Will need to consider any investment required to deliver savings/service improvements; resourcing to deliver the changes, etc • Project Manager and Project support officer to be recruited to support delivery of transformation programme, funding allocated in budget 2024/25 to fund posts; • Training of managers and key officers in transformation techniques | <p>Deputy Chief Executive (Resources) and Head of Transformation & Assurance</p> | <p>Quarter 3 - 2024/25</p> |

| Action | Lead Officer | Timescale |
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| Consultation to take place with stakeholders as part of development of new corporate plan and priorities. | Deputy Chief Executive (Resources) and Head of Transformation & Assurance | To be done for new Corporate Plan (s) and any savings exercises going forwards |
| Consultation and engagement to be embedded into the planning for the delivery of key projects where appropriate to ensure schemes meet community needs eg regeneration projects, redevelopment of play areas | Deputy Chief Executive (Resources) and Head of Transformation & Assurance | Quarter 3 - 2024/25 |
| Align the MTFS to the corporate priorities in the Council's Business Plan including the costed climate change actions | Deputy Chief Executive (Resources) and Head of Transformation & Assurance | Completed as part of budget setting 2024/25 to be revisited Quarter 2 2024/25 |
| IT (Key Recommendation 2) | | |
| Update IT security policy and adopt a cyber security policy | Head of Transformation & Assurance and Chief Technology Officer | Quarter 1 - 2024/25 |
| Develop assurance reporting for IT eg report on outcome of annual health check / penetration testing to Leadership Team and Audit Committee | Head of Transformation & Assurance and Chief Technology Officer | Quarter 2 - 2024/25 |
| Implement outstanding recommendation from Cyber and Network Security Audit - staff to complete cyber training | Chief Technology Officer and Information Manager | Quarter 4 - 2023/24 |
| Provide refresher training to ensure compliance with process for 3 rd party data transfers and completion of privacy impact assessments | Chief Technology Officer and Information Manager | Quarter 1 - 2024/25 |

| Action | Lead Officer | Timescale |
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| Review of what we include in procurements re ICT controls and information governance | Head of Transformation & Assurance, Chief Technology Officer, Head of Law & Governance and Information Manager | Quarter 2 - 2024/25 |
| Finalise the change management strategy | Chief Technology Officer | Quarter 4 - 2023/24 (currently in draft to be presented to Leadership team in February) |
| Finalise Information Governance Framework | Head of Law & Governance | Quarter 4 - 2023/24 (Currently in draft) |
| Complete the IT strategy | Deputy Chief Executive (Resources) | Quarter 1 - 2024/25 |
| Fraud (Key Recommendation 3) | | |
| Review Anti - Fraud & Bribery Policy | Chief Internal Auditor & Risk Manager | Quarter 3 - 2024/25 |
| Review of Confidential Reporting Policy | Chief Internal Auditor & Risk Manager | Quarter 3 - 2024/25 |
| Assess compliance against Cipfa 2014 Code for Fraud and develop an action plan as necessary | Chief Internal Auditor & Risk Manager | Quarter 3 - 2024/25 |

| Action | Lead Officer | Timescale |
|---|--|---------------------|
| Assess fraud risks and include in risk registers as appropriate | Chief Internal Auditor & Risk Manager and Leadership Team | Quarter 4 - 2024/25 |
| Review the information we report on fraud work (including data matching) to the Audit Committee. | Chief Internal Auditor & Risk Manager | 2025/26 |
| Performance Management (Key Recommendation 4) | | |
| Develop and adopt a performance management framework to establish golden thread from Corporate Plan to service plans through to employee reviews. Framework to include protocols for ensuring data quality | Head of Transformation & Assurance | Quarter 4 - 2024/25 |
| Review our performance report style - delivery plans and KPIs. To consider the development of performance outcome measures | Head of Transformation & Assurance | Quarter 4 - 2024/25 |
| Performance reporting for waste and leisure: <ul style="list-style-type: none"> • review of KPIs for monitoring and reporting on performance; • establish internal validation process of contract performance; and • review information reported to Cabinet / Scrutiny | Head of Transformation & Assurance, Head of Operations and Head of Wellbeing | Quarter 4 - 2024/25 |
| Establish a Corporate Project Management Methodology. Provide templates, guidelines, and training for key officers (LT, Service Managers and key Principal Officers/Team Leaders). | Deputy Chief Executive (Resources) & S151 Officer and Head of Transformation & Assurance | Quarter 2 - 2024/25 |

| Action | Lead Officer | Timescale |
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| Establish corporate project resources to support transformation work (funding allocated in 2024/25 budget) | Deputy Chief Executive (Resources) & S151 Officer and Head of Transformation & Assurance | Quarter 2 - 2024/25 |
| Review of all projects, the current governance arrangements and establish project reporting to Leadership Team | Deputy Chief Executive (Resources) and Deputy Chief Executive (Place) | Quarter 2 - 2024/25 |
| HR related issues (Improvement Recommendations 1 and 3) | | |
| Establish our culture, values and type of organisation we want to be. This work will inform the following actions | Deputy Chief Executive (Resources) & S151 Officer and Head of Transformation & Assurance | Quarter 1 2024/25 |
| Complete review of hybrid working. This will inform the development of the workforce strategy and the review of the Code of Conduct as well as support the development of an asset strategy | Head of Transformation & Assurance and HR Manager | Quarter 1 2024/25 |
| Develop a hybrid working policy and review other related policies and processes. | Head of Transformation & Assurance and HR Manager | Quarter 3 2024/25 |
| Development of a workforce strategy that links to long term transformation / shared services | Head of Transformation & Assurance and HR Manager | 2025/26 |
| Review and update the Employee Code of Conduct | Head of Transformation & Assurance and Head of Law & Governance | Quarter 3 2024/25 |

| Action | Lead Officer | Timescale |
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| Risk Management (Improvement Recommendation 2) | | |
| Review of risk management policy and framework - includes review of format of the Strategic Risk Register (SRR) | Head of Transformation & Assurance and Chief Internal Auditor & Risk Manager | Quarter 4 - 2023/24 (currently in draft to be presented to leadership team in February 2024) |
| Review of guidelines on risk implications for committee reports | Head of Transformation & Assurance and Chief Internal Auditor & Risk Manager | Quarter 4 - 2023/24 |
| Training for Leadership Team, managers, team leaders/principal officers on risk management | Head of Transformation & Assurance and Chief Internal Auditor & Risk Manager | Quarter 1 - 2024/25 |
| Develop risk registers for each Directorate and ICT | Deputy Chief Executive (Resources), Deputy Chief Executive (Place) and Head of Transformation & Assurance | Quarter 2 - 2024/25 |
| Establish escalation process between other risk registers and the SRR eg services, projects | Head of Transformation & Assurance and Chief Internal Auditor & Risk Manager | Quarter 2 - 2024/25 |
| Review of risks in annual budget report to be consistent with corporate process | Deputy Chief Executive (Resources) & S151 Officer | Completed |

| Action | Lead Officer | Timescale |
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| Procurement and Contract Management (Improvement Recommendation 5) | | |
| Review and update the Procurement Regulations | Deputy Chief Executive (Resources), Head of Transformation & Assurance and Head of Law & Governance | Quarter 2 - 2024/25 |
| The key elements of the procurement strategy will be built into the procurement regulations rather than as a stand-alone document. | Head of Transformation & Assurance | Quarter 2 - 2024/25 |
| Update the contracts register and ensure it is compliant with transparency requirements | Head of Transformation & Assurance and Leadership Team | Quarter 4 - 2023/24 (this will be the first draft to be revisited Quarter 3 2024/25) |
| Work with managers and the County's Procurement Team to develop a procurements pipeline | Head of Transformation & Assurance and Leadership Team | Quarter 3 - 2024/25 |
| Provide training for managers on procurement and contract management | Head of Transformation & Assurance | Quarter 2 - 2024/25 |
| Process to be established for publication of key data on the Council's website to meet transparency requirements re spend data, contracts register | Deputy Chief Executive (Resources) and Head of Transformation & Assurance | Quarter 3 - 2024/25 |

| Action | Lead Officer | Timescale |
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| Other Related Actions | | |
| Review of Code of Governance | Head of Transformation & Assurance | Quarter 4 - 2024/25 |
| Development of Assurance Model | Head of Transformation & Assurance and Chief Internal Auditor & Risk Manager | 2025/26 |
| Review of Audit Reporting to Leadership Team and escalation protocols | Head of Transformation & Assurance and Chief Internal Auditor & Risk Manager | Quarter 4 2023/24 (Coming to leadership team February 2024) |
| Establish an inventory of key policies and a programme of periodic reviews | Leadership Team | Quarter 3 - 2024/25 |