

West Lindsey District Council

Report to the Governance and Audit Committee

VFM risk assessment for the year ending 31 March
2024

September 2024

Introduction

To the Governance and Audit Committee of West Lindsey District Council

We are pleased to have the opportunity to meet with you on 24 September 2024 to discuss our audit of the financial statements of West Lindsey District Council for the year ending 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24, therefore this risk assessment will remain draft until the finalisation of that Code.

This report outlines our risk assessment for our VFM responsibilities. We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

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The engagement team

Rashpal Khangura (CPFA) is the engagement director on the audit. He has over 20 years of public sector audit experience.

Rashpal shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include Badar Abbas (Senior Manager) and Alex Greenwood (In-charge) with 13 years and 3 years of experience respectively.

Yours sincerely,

RS Khangura

Rashpal Khangura

Director - KPMG LLP

11 September 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of West Lindsey District Council and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Value for money

For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility to conclude on significant weaknesses in value for money arrangements is unchanged.

The main output remains a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

Risk assessment processes

Our responsibility remains to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

As with the prior year our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

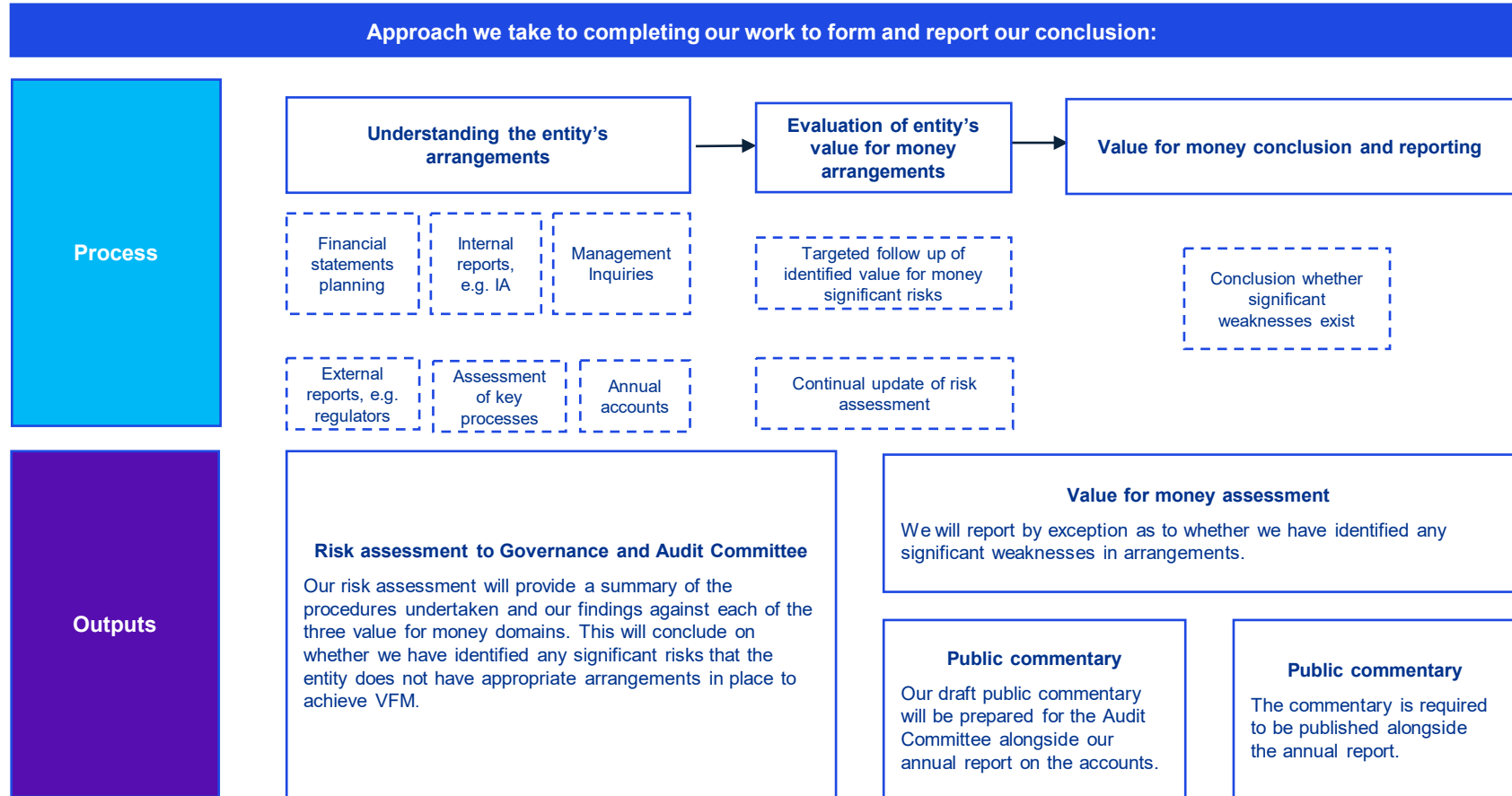
Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money



Summary of risk assessment

Summary of risk assessment

As set out in our methodology we have evaluated the design of controls in place for a number of the Council's systems, reviewed reports from external organisations and internal audit and performed inquiries of management.

Based on these procedures the table below summarises our assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money at the Trust for each of the relevant domains:

Domain	Significant risk identified?
Financial sustainability	No significant risks identified
Governance	No significant risks identified
Improving economy, efficiency and effectiveness	No significant risks identified

As a result of our risk assessment, we have not identified any significant risks at this stage. We note, that on pages 8 and 11 we have identified some improvement opportunities, however as noted on those pages these do not represent a significant weaknesses.

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

Summary of risk assessment

Budget setting

The Council's budgeting process starts in June when Business Support Team Leader (BSTL) hold budget setting process meeting with Finance Business Partners (FBPs) of service directorates. This meeting covers budget setting timetable, individual responsibilities and a reminder of the process and specific actions.

FBPs review the controllable budgets within their service areas. They look at the previous 3 years activity and seek to identify areas of savings or increased income and build their own working paper for expected budget requirements prior to meeting with the Budget Managers (BMs). Key assumptions including inflation are agreed through the process.

Capital budgets are reviewed by BM and FBP and uncontrollable budgets like depreciation, insurance, business rates etc. are reviewed centrally by an allocated FBP and entered onto the budget model. The allocation basis for Central Support Services is confirmed with BMs and the calculation of allocations completed once budgets are complete. Further, Parish Councils are invited to submit their estimates of parish precept requirements, followed later in the year by a final agreed precept figure for the budget. The final entries to the Medium Term Financial Plan (MTFP) are usually the funding items – final council tax and government settlement grant.

Ahead of budget finalisation, the Council hold several budget consultation events with the public and businesses to compile feedback. The Council's annual budget is a rolling process as part of the MTFP and effective from 2023/24, budget model is built within the 'One Council' application.

Once all budgets are completed, FBPs and BMs are required to complete a final review of their service areas before the end of December. The MTFP is then prepared ready for inclusion in the Financial Strategy and MTFP report for the Council in March. The final 2023/24 budget was approved by the Council on 6th of March 2023 as part of 'Executive Business Plan 2023/24 to 2025/26'.

Value for money arrangements

Financial sustainability (Cont.)

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

Summary of risk assessment (cont.)

Budget monitoring

The Council operate a quarterly Budget Monitoring cycle. The process starts with meeting between BM and FBP to discuss capital or revenue outturn position of respective service directorate. Key budget variances including plans to recover the position are discussed during this meeting. Following the meeting, BM finalise forecast outturn pack (FOP) which is then reviewed by the FBP. At this point, BSTL analyses the data and produces the forecast outturn report which is then incorporated into the monitoring summary reports for Budget Managers / Directors. These budget summary reports are compiled to produce quarterly 'Budget and Treasury Monitoring' for presentation to Corporate Policy and Resource (CPR) Committee.

As part of the review, we have reviewed Q4 'Budget and Treasury Monitoring Report 2023/24', presented in CPR Committee meeting. The report highlights the actual and revised budget forecast position for revenue, capital, treasury and staffing budgets. The Executive Summary provided highlights of the budget position and also key budget risks. Significant movements are explained with reference to cluster / service departments, also highlighting the direction of travel for the year-end (positive, negative, stable). Finally, commentary is provided for the status of significant budget items.

We noted that the Council consider the impact of budget variances for MTFP where impact on financial plan is discussed and considered for revision as part of budgeting for following year.

Budget outturn

For 2023/24, the Council set total net revenue expenditure budget of £16.9m initially, later revised to £17.5m. The Council's actual outturn position was positive at £16.7m i.e. underspent of £0.8m. After taking into account carry forwards to future years, the Council's net contribution to reserves for the year amounted to £0.115m.

Efficiency plan

The Council has developed 'Together 24' (T24) Savings and Efficiency Plan with total target of £300k. However, this programme has not been incorporated into 2023/24 financial plan given sufficient fiscal headroom and low budget pressure.

Value for money arrangements

Financial sustainability (Cont.)

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

Medium term financial plan

The latest Medium Term Financial Plan agreed on 04 March 2024 by the Council shows funding gaps of £0.7m, £1.1m, £1.3m and £1.3m in the periods 2025/26 to 2028/29 respectively. We note currently the Council do not have a formal process (as part of its governance process) regarding identification and development of savings plans, monitoring of progress on savings initiatives and taking corrective action where appropriate. Whilst the Council has a track record of meeting their financial plan, these do present a greater challenge going forward. We do not believe this is a significant weaknesses at this stage, however, if funding gaps and spending pressures become larger alternative arrangements will need to be considered.

Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified a significant risk associated with financial sustainability.

Below we have identified an improvement opportunity, which we will formally report in our year-end report for the audit. We note this does not represent a significant weaknesses.

Improvement observations:

- The Council should consider the appropriateness of its arrangements regarding the identification and development of savings plans and monitoring of progress on savings initiatives in the context of the level of future savings.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

Summary of risk assessment

Risk management

The Council has a comprehensive 'Risk Management Strategy' in place to identify, monitor and manage business risks. Different types of risks i.e. strategic, operational, programme etc. are defined based on level of risk impact. A process of identification of emerging risks is defined where adverse factors impacting the objectives of the Council's Plans and Policies are identified as risks. Once identified, risks are recorded in the risk register and an owner of the risk is allocated for accountability and effective risk management. Each risk is assigned an 'inherent' risk level score from the range of 1 (Lowest) - 16 (Highest) based on impact and likelihood.

While the Council has ultimate responsibility of risk management, monitoring and reporting of risk is carried out at different levels. Strategic risks are managed and reviewed by the Management Team and are also presented for the review to the Governance & Audit Committee (G&AC) on a six-monthly basis. Service Risks are reviewed regularly via monthly service team meetings and are managed at an operational level.

Anti-fraud controls

The Council undertake a number of measures to prevent and detect fraud. There is an 'Anti-fraud and corruption policy'. This sets out key actions for the Council to ensure compliance in terms of anti-fraud arrangements in place. Roles and responsibilities of executives, staff and auditors to promote a prevention of financial crime culture are defined in the policy.

An Annual Counter Fraud Report is prepared by the Director of Corporate Services and presented to the G&AC. Findings of the report are reported to members of the committee and follow-up actions /recommendations are assigned to management. The Council also receive assurance on anti-fraud controls through the work of internal audit.

Value for money arrangements

Governance (Cont.)

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

Summary of risk assessment

Financial plan 2023/24 and budget monitoring

The Council's financial plan for 2023-24, as part of the MTFP, went through several levels of review prior to approval by the Council in March 2023. Financial performance, against the budget is regularly monitored as outlined in the Financial Sustainability section. As part of quarterly 'Budget and Treasury Monitoring Report' to CPR Committee, significant variances against budget are clearly identified and explained with reference to change in position i.e. improved, no change or worsened. Any mitigating actions are also identified. The Council's final 2023/24 outturn was a net contribution to reserves of £0.1m as compared to breakeven position set in the initial budget.

Compliance with laws & regulations

The Council's Monitoring Officer is responsible for monitoring compliance with all relevant/applicable legal requirements. As per Constitution, the Monitoring Officer, after consultation with the S151 Officer, will report to the Council if she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given, or would give rise, to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.

Standards of behaviour

The 'Officer Code of Conduct' defines standard behaviour of the members of staff including anti fraud, anti corruption, gifts and hospitality policy. It also requires staff to disclose and register in the Register of Interest if they have relationship with contractor or supplier. It also covers the safeguard of respective staff member against harassment or victimisation, confidentiality and allegations. The Council also has separate 'Prevention of Financial Crime Policy, Anti-Fraud and Corruption Policy and Anti-Bribery Policy' to ensure safeguard of the Council's interests.

Value for money arrangements

Governance (Cont.)

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

Summary of risk assessment

Decision making process

Our risk assessment procedures and management inquiries confirm the Council has appropriate arrangements in place to ensure scrutiny, challenge and transparency of decision making. The Council's 'Financial Procedure Rules' and 'Contract & Procurement Procedure Rules' form part of the Constitution and set business rules for key decisions to ensure transparency and proportionality. Key decision making is subject to discussion and scrutiny at executive team level and relevant sub-committees such as CPR Committee, followed by formal approval by the Council.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with governance.

Below we have identified some improvement opportunities, which we will formally report in our year-end report for the audit. We note these do not represent a significant weaknesses.

Improvement observations:

- During our review, we have noticed that the Council's Risk Management Strategy has not been updated for latest period. The Council's previous strategy was for the period 2019-23 and it has not been revised after the end of five year period. We would recommend that the Council should update its Risk Management Strategy.
- During our review, we have noticed that the Council's record of contract exceptions is not a robust document which records the value of the contract, reason for exception and the approval process followed. We would recommend that the Council should formalise documentation of contract exceptions to ensure greater transparency and compliance with the procurement rules.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

Performance of services

We have found appropriate arrangements and processes in place to support the Council in using information about costs and performance to improve the way services are managed and delivered, with a focus on the level of value for money being achieved. As per the Council's 'Performance Management Policy', while CPR Committee is responsible for the overall performance framework, 'Prosperous Communities Committee' (PCC) has wider visibility and transparency of the Council's performance.

The Council's 'Progress and Delivery Performance Measures and Targets 2023/24' were approved by the CPR Committee identifying 53 KPIs across 6 different portfolios. Monitoring of these targets is carried out through quarterly 'Progress and Delivery Report' presented to PCC. As per Q4 report, the Council exceeded target for 42 KPIs, 2 KPIs remained within tolerance while 9 KPIs are assessed as below target. The Council has also 'Performance Improvement Plans' (PIPs) in place for measures which report below target for two or more consecutive periods.

Benchmarking

The Council is affiliated with APSE (Association of Public Service Excellence) to collaborate and benchmark its service delivery efficiency with other public bodies. APSE is a not for profit unincorporated association working with councils throughout the UK to assess the performance across service delivery and energy efficiency. At year-end, the Council submit its service delivery data to APSE and then benchmarking reports are issued by APSE giving the Council an opportunity to reflect and improve its service delivery.

Value for money arrangements

Improving economy, efficiency and effectiveness (Cont.)

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

Partnerships

The Council has partnered with other local organisations to support economic, efficient and effective delivery of public services. The Council is a member of the Central Lincolnshire Joint Strategic Planning Committee to set out a more strategic vision for western Lincolnshire and to take a unified approach to the promotion and growth of the wider Lincoln region. The Council is also a key partner in 'Greater Lincolnshire Local Enterprise Partnership' that aims to increase productivity by supporting local businesses to create jobs.

The Council also appointed Scampton Holdings Limited as its development partner for the RAF Scampton site. The Council partnered with the Lincolnshire Waste Partnership to provide sustainable waste management services for the whole of Lincolnshire and is a key partner of 'Wellbeing Lincs' with other Lincolnshire District Councils to deliver the wellbeing service across the county.

Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified a significant risk associated with improving economy, efficiency and effectiveness.



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