



Report to Audit Committee

Annual Governance Statement for 2019/20

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

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23 June 2020

The purpose of this report is to:

- a) Update Members of the Audit Committee on the progress made to reduce the risk of issues arising for the Council to address, where matters were identified as areas requiring improvement in internal control within the Annual Governance Statement for 2018/19 assessing whether they will be included in the 2019/20 Statement
- b) The report also identifies new risks pre-COVID which, are considered appropriate for potential inclusion in the Annual Governance Statement for the financial year 2019/20 and assesses whether they will be included in the 2019/20 Statement
- c) An assessment of the new risks which are apparent since the pandemic making an assessment as to whether they will be included in the 2019/20 Statement
- d) The draft Annual Governance Statement for the financial year 2019/20

This report supports the draft Statement of Accounts which are considered elsewhere on this Agenda.

Executive Summary

The Council, as part of its Statement of Final Accounts produces an Annual Governance Statement. This identifies the significant governance issues that the Council needs to consider at the financial year-end to reduce its risk.

Appendix 1 details the issues reported in the 2018/19 Annual Governance Statement and the actions taken during the 2019/20 financial year to mitigate these risks. It also gives an opinion on the present risk at the production of the Annual Governance Statement based upon a Red/ Amber/ Green (RAG) rating which has been used to assess whether to include in the present statement.

Appendix 2 details those new issues that were considered for inclusion in the 2019/20 Annual Governance Statement pre COVID. It also gives an opinion on the present risk at the production of the Annual Governance Statement based upon a Red/ Amber/ Green (RAG) rating which has been used to assess whether to include in the present statement.

Appendix 3 details those new issues that were considered for inclusion in the 2019/20 Annual Governance Statement as a result of COVID. It also gives an opinion based upon a Red/ Amber/ Green (RAG) rating. which has been used to assess whether to include in the present statement.

Appendix 4 details the draft Annual Governance Statement included in the draft Statement of Accounts.

In producing the Annual Governance Statement for 2019/20 the briefing from the Chartered Institute of Public Finance and Accountancy Better Governance Forum which advised on “Matters to consider as a result of the coronavirus pandemic” has been considered.

Recommendations

The Committee reviews the draft Annual Governance Statement included within the draft Statement of Accounts for the financial year 2019/20.

Audit Committee

Annual Governance Statement for 2019/20

1 Issues included in the 2018/19 Annual Governance Statement

- 1.1 The 2018/19 Annual Governance Statement (AGS) identified a total of eight issues for the Council, which via this Committee, were monitored in the financial year 2019/20 as to how risk was being reduced. These are detailed in Appendix 1 to this report. They included the need to strengthen internal control within both the Payroll Service and the financial systems in Adult Social Care. Both of these have been long term issues for the Council to address. Appendix 1 also sets out the assessed progress made as at 31 May 2020 to address these issues which has then been used to prepare the 2019/20 Annual Governance Statement.
- 1.2 In respect of Payroll processing, this Committee has noted the challenges faced in improving the control environment over a number of years. On 2 July 2018 the Council became the outright owner of Unity Partnership. This provided an opportunity for the Council to directly influence and improve payroll processing, including implementing a better system supported by appropriate processes. Indications continue to be that improvements have been made, but that the task to improve controls including implementing a new system should not be underestimated. The implementation of a new system has been made more challenging by the need to amend working patterns linked into COVID 19 pandemic. The implementation of the new system has been unavoidably delayed because of this into 2020/21.

2 Issues considered for Inclusion in the AGS pre COVID-19

- 2.1 Appendix 2 details those new issues, which were considered for inclusion in the AGS for the financial year 2019/20 pre COVID. The issues identified related to decisions taken before the pandemic which without the pandemic were subject to the normal decision-making processes of the Council. Whilst a decision was taken not to include any issue specifically in the Annual Governance Statement there is a link into issues identified in the Statement.

3 Issues

- 3.1 Appendix 3 details those issues which were considered for inclusion in the AGS for the financial year 2019/20 post COVID. As can be seen in the AGS it has been decided that two issues warrant inclusion.

4 Annual Governance Statement for 2019/20

- 4.1 Appendix 4 details the draft AGS for 2019/20.

5 Options/Alternatives

- 5.1 The Audit Committee considers this report which details the AGS for 2019/20 prepared as a key document within the Statement of Accounts.
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6 Preferred Option

6.1 The preferred option is that the Audit Committee reviews the AGS in accordance with the recommendation made.

7 Consultation

7.1 N/A.

8 Financial Implications

8.1 Any impact on the Council's overall financial position are detailed in Appendices 1, 2,3 and 4. (Anne Ryans)

9 Legal Services Comments

9.1 N/A.

10 Cooperative Agenda

10.1 N/A.

11 Human Resources Comments

11.1 N/A.

12 Risk Assessments

12.1 These are detailed in Appendices 1, 2, 3 and 4. (Mark Stenson).

13 IT Implications

13.1 N/A.

14 Property Implications

14.1 N/A.

15 Procurement Implications

15.1 N/A.

16 Environmental and Health & Safety Implications

16.1 N/A.

17 Equality, community cohesion and crime implications

17.1 N/A.

18 Equality Impact Assessment Completed

18.1 N/A.

19 **Key Decision**

19.1 N/A.

20 **Forward Plan Reference**

20.1 N/A.

21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are included in Appendices 1, 2, 3 and 4.

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22 **Appendices**

22.1 **Appendix 1:** Significant Governance and Risks identified in the 2018/19 Annual Governance Statement.

22.2 **Appendix 2:** Issues to be considered for inclusion in the 2019/20 Annual Governance Statement pre COVID.

22.3 **Appendix 3:** Issues to be considered for inclusion in the 2019/20 Annual Governance Statement post COVID

22.3 **Appendix 4:** The 2019/20 Annual Governance Statement

SIGNIFICANT GOVERNANCE ISSUES AND RISKS IDENTIFIED IN THE 2018/19 AGS

APPENDIX 1

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
<p>The internal control environment on Adult Social Care systems did not sustain the improvements in the financial year 2018/19 as evidenced during the previous financial years. Issues identified in the 2018/19 internal audits need to be implemented on direct payments.</p>	<p>Added impetus will be given to strengthen the financial processes linked into the Mosaic system. This will involve regular meetings of key staff responsible for the implementation of improvements identified. This will include a six-monthly report to the Director of Finance on the progress made on emerging issues and any improvements identified throughout the year.</p>	<p>The service embarked on a significant change agenda and implemented some new ways of working, from 1 April 2019. The Director of Finance and her teams are collaborating with colleagues in the service to support relevant activities, which are required for the service to achieve its business plans.</p> <p>The Group responsible for the oversight of financial recovery meets on a regular basis to improve processes to support the implementation of Mosaic. A report has been produced on Direct Payments for consideration and its recommendations are currently being implemented. The 2019/20 Final Financial Systems Audit of Direct Payments indicated improvements need to continue to be made in this area.</p> <p>The regular update reports to the Director of Finance supported by the 2019/20 Interim Financial Systems audit recommended that developments continue to be required to achieve further progress. The Director of Finance continues to support service colleagues around this matter.</p>	<p>Amber</p>

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
<p>The audit opinion of the internal control environment for the operation of Payroll has improved to inadequate as at 31 March 2019. Further improvements to both the internal control environment and efficiency of the service are required.</p>	<p>There are to be two specific reports to be made to the Audit Committee on the progress made to improve the service. This will be supported by a six-monthly report to the Director of Finance on the progress made on emerging issues and any improvements identified throughout the year.</p> <p>The project to combine the two payroll systems used into one will be supported by assurance from both Finance and Internal Audit. The updates to the Audit Committee will include appropriate updates on the progress made.</p>	<p>The Council and Unity have accepted the agreed payroll improvement plan and the Council has agreed to a level of investment in the service to ensure future payroll processing continues to become more stable and resilient.</p> <p>A key element of the payroll improvement plan supported by agreed investment is to continue to undertake essential work to enhance the functionality of the Service. This work is ongoing.</p> <p>Whilst there have been improvements to on-going payroll processing significant risks remain around legacy processing issues and manager compliance (as identified during Fundamental Financial System reviews); these are being resolved on a systematic basis.</p> <p>There has been significant effort involving the People Programme Assurance Group to ensure improvements to processes are designed into the replacement IT system, and the supporting business/operational processes This work is ongoing but is creating challenges around managing the day to day business whilst working on the system implementation.</p>	<p>Red</p>

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
	<p>The Director of Finance considers the residual risks from past processing as part of the closure of accounts and during monitoring arrangements for 2019/20.</p>	<p>The significant residual risk around legacy pension issues have been managed and is not considered material. An internal audit review undertaken by officers of the Greater Manchester Pension Fund indicates there are issues to improve on pensions administration. Again, the recommendations have been worked through on a systematic basis.</p>	
<p>The continued compliance with the National Transparency Agenda has increased the risk of the Council to a future fraud as information included in the public domain and obtained from Freedom of Information is used to exploit the Council.</p>	<p>There are regular reviews of the internal control mechanism to prevent third parties receiving inappropriate payments.</p> <p>The minimalist approach to publishing information which is a legislative requirement under the Transparency Agenda is maintained.</p> <p>The Council led Group on Information Governance takes organisational responsibility for this risk.</p>	<p>The review of the present control environment as part of the 2019/20 Final Fundamental Financial Systems (FFS) review of Accounts Payable, identified no significant issues, based on the testing conducted.</p> <p>A response has been provided by the Council to the consultation on the historic proposals to publish data under the Transparency Agenda. This has highlighted the risks of publishing procurement data. The formal government response to this consultation is taking a significant time to draft.</p> <p>Discussions are on-going to publish the minimal amount of sensitive procurement information as the regulations allow. In early 2018/19 an</p>	<p>Amber</p>

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
		<p>adjustment was made to the data published on transactions over £500 to better protect the Council.</p> <p>An emerging risk is on payroll. In December 2018 there were attempts to get the Council to change the bank details of key members of staff. This was unsuccessful but the Council has undertaken a review of this control and work is ongoing to improve the change control procedure.</p> <p>The Council has also received a request purporting to be from itself requesting validation to change bank account details. The request was not processed indicating that the Council's processes worked as intended.</p>	
<p>There has been a structural overspend on the revenue budget linked into Children's Social Care for the past two financial year despite additional funding been made available.</p>	<p>A management review is underway to identify future efficiencies.</p> <p>The Council has set a budget with appropriate resources for 2019/20 to enable the out-turn to be in line with agreed resources.</p>	<p>The implementation of the new Children's Service Operating Model is on-going. Whilst initial effort has concentrated on operational matters there is a need to improve financial administration under the new arrangements.</p> <p>The outturn position for 2019/20 showed that that the budget was broadly sufficient for current 2019/20 demand. There, however remains a challenge for 2020/21 which, will be monitored closely</p>	<p>Green</p>

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
	<p>Oversight of performance against budget for the service will be provided by the Overview and Scrutiny Performance and Value for Money Select Committee during 2019/20.</p> <p>The Director of Finance considers the residual risks from the potential future financial resilience as part of the closure of accounts and during the monitoring arrangements for 2019/20.</p>	<p>A report was presented to the Overview and Scrutiny Performance and Value for Money Select Committee at its meeting on 27 June 2019. This provided assurance the Service would deliver within budget. A further report was presented to the Select Committee on 3 October 2019 which provided additional information about service expenditure and activity.</p> <p>In addition, corporate budget monitoring reports at month 3, 6 and 8 were subject scrutiny by the Select Committee.</p> <p>This was considered as part of the 2019/20 closure of accounts and was monitored as a matter of course during 2019/20.</p>	
<p>Dedicated Schools Grant is in a deficit position which requires assurance to be given to the Department of Education that it will be brought back to break-even over a three year timeframe.</p>	<p>The Recovery Plan agreed after the completion of the 2018/19 accounts has supported the reduction in deficit. The actions identified to reduce the deficit will be continued during 2019/20 to negate the need to report to the Department of Education at the year-end.</p>	<p>The Dedicated Schools Grant deficit required the submission of a Recovery Plan to the Department of Education (DfE). The Council report on the planned Recovery has been reviewed by the Department of Education and several of the planned initiatives to reduce the deficit are on-going. A response from the Education Skills and Funding Agency indicated the deficit</p>	<p>Amber</p>

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
	<p>The Director of Finance considers the residual risks arising from the potential future financial resilience.</p>	<p>recovery plan was robust. Actions agreed in the Recovery plan have been agreed by the Schools Forum. The DfE has subsequently revised the requirement for the submission of a Recovery Plan, however the deficit on the DSG is being kept under review and the Council will liaise with the DfE and comply with any revised requirements.</p> <p>This was considered as part of the 2019/20 closure of accounts</p>	
<p>There are future changes to the Council's financial framework (from the current certainty guaranteed by the efficiency plan) due to uncertainty on matters outside the Council's control such as Brexit, a change of national government or devolution.</p>	<p>There are planned developments in 2019/20 to improve efficiency around:</p> <ul style="list-style-type: none"> • Delivering further Transformation in the Authority via the Strategic Design Authority. • Continued integration with Health • Collection of Revenues due to the Council. • Finance available to support the capital programme. • Realising the value out of entities in which the Council has a financial interest. 	<p>The work of the Strategic Design Authority (now revised to the Strategic Design and Delivery Board) is ongoing. This Board is leading initiatives which plans to achieve efficiencies in the long term.</p> <p>The year 2019/20 marked the second year of Health integration operations supported by the health transformation programme.</p> <p>Work continues to support initiatives to increase income collection. This is subject to regular review</p> <p>The Financing of the capital programme is subject to regular review by the Director of Finance.</p>	<p>Amber</p>

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
	<p>This is supported by:</p> <ul style="list-style-type: none"> • The Policy Team reviewing on-going updates of changes in terms of events. • An agreed Reserves Policy subject to regular review • Joint working with key partners such as health to better align resources. <p>The Director of Finance considers the risks as part of the closure of accounts and during monitoring arrangements for 2019/20.</p>	<p>A project under the Director of Finance has been set up to ascertain the potential to realise value from the entities in which the Council has an interest.</p> <p>The Reserves Policy has been reviewed for 2019/20 by this Committee.</p> <p>This was considered as part of the 2019/20 closure of accounts.</p>	
<p>The Council has a number of key regeneration projects planned for the future. Should one of these projects not be delivered as planned it is likely to result in reputational damage to the Council or increase the financial pressure on the Council for the future.</p>	<p>The Capital Investment Programme Board receives bi monthly reports on the high value projects once construction is underway.</p> <p>The Council's Reserves Policy is reviewed on a regular basis by the Director of Finance to reflect the risks linked into the capital strategy.</p>	<p>Work has begun on the enabling works within the Cultural Quarter during 2019/20. As this is a heritage building it has the potential for risks to emerge.</p> <p>The Reserves Policy has been reviewed for 2019/20 by this Committee.</p>	<p>Amber</p>

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
	<p>An annual review of the major Regeneration Projects will be undertaken by the Overview and Scrutiny Performance and Value for Money Select Committee.</p> <p>The Director of Finance considers the risks as part of the closure of accounts and during monitoring arrangements for 2019/20.</p>	<p>This was included within the agreed work plan for the Committee and subject to a presentation.</p> <p>This was considered as part of the 2019/20 closure of accounts</p>	
<p>The future reforms to Health Integration do not result in the efficiencies anticipated due to increased demand</p>	<p>The risk is factored into the planning process for reforming Adult Social Care within the Oldham Locality which is moving on with the current re-alignment which will be expanded as more services are integrated.</p>	<p>This work continues with both Health and the Local Authority collaborating to achieve value for money through continued closer working in partnership and enhancements/ investments to the pooled budget.</p> <p>Joint management arrangements began to operate from 1 April 2018 with integrated operations transferring through 2018/19 and 2019/20. The Council and Clinical Commissioning Group have a joint Accountable Officer.</p> <p>The agreed Governance processes are under development and, as above, the service has embarked on a significant change agenda and moved to new ways of working, from 1 April 2019. The Director of Finance and her teams are collaborating with colleagues in health and social care service to support and review relevant activities, which are</p>	<p>Amber</p>

2018/19 Issues/ Risks	Planned Management Action to Reduce Risk as per 2018/19 Annual Governance Statement	Progress to Reduce Risks as at 31 March 2020	Current RAG rating
	<p>The Director of Finance considers the risks as part of the closure of accounts and during monitoring arrangements for 2019/20.</p>	<p>required for the service to deliver business plans, transformation and efficiency.</p> <p>Combined joint working on the deployment of Greater Manchester Transformation Funding is supporting the movement to greater integration.</p> <p>This was considered as part of the 2019/20 closure of accounts.</p>	

ISSUES CONSIDERED FOR INCLUSION IN ANNUAL GOVERNANCE STATEMENTS- PRE COVID

APPENDIX 2

2019/20 Issue	Current Risk to the Council	Action being undertaken	RAG Rating
<p>The short-term financial resilience of several key partners within health reduces the future financial resilience of the Council.</p>	<p>The regime, within which partner health organisations operate, is more restrictive than the Council's, resulting in requests for the Council to use its increased financial flexibility to support health budgets from either reserves or capital resources as evidenced by the Cabinet report agreed in December 2019 setting out support to Oldham Clinical Commissioning Group provided by the Council. The expectation is that this investment will generate efficiencies allowing the Council to reduce its contributions to joint working arrangements in future years. If the efficiencies are not in line with the expectations, the financial impact will fall upon the Council thus influencing its long-term financial resilience.</p>	<p>The Council is working with key health and social care partners including at the CCG, to agree appropriate financial recovery plans which results in the Council's upfront investment leading to future efficiencies. It is expected that this will provide the opportunity for the Council to reduce its contributions to joint working initiatives over the period 2021/22 to 2023/24 .</p>	<p>Green</p>
<p>In order to maintain the future financial resilience of the Council, it is envisaged that the transformation programme (both Council and on Health Integration) delivers future efficiencies phased over several financial years. Whilst saving are being delivered, the base budget will be supported by reserves, but this support is expected to be phased out by 2023/24.</p>	<p>The programme which is at design stage before moving to implementation does not deliver the savings envisaged resulting in the Council having to reduce services without delivering the envisaged efficiencies.</p> <p>The current planned budget strategy has parallels to other Local Authorities. Some Authorities have been very successful in delivery of respective transformation</p>	<p>The current risk rating of green reflects the position at the setting of the 2020/21 budget which is underpinned by specific earmarked reserves. Whilst the use of reserves is planned to reduce, the opportunity to rely on reserves will reduce if they are used but cannot be replenished.</p> <p>The Section 151 Officer is aware of the risk and the Statutory Duty to advise Members should it become necessary. This report is highlighting the risk to the</p>	<p>Green</p>

2019/20 Issue	Current Risk to the Council	Action being undertaken	RAG Rating
	programmes. There are however examples of where the expected transformation programme did not deliver in accordance with plans and radical action was required by the S151 Officer.	Audit Committee of the potential requirement for action in the event that the Transformation Programme does not deliver the cash savings that are expected.	

Issues to be considered for inclusion in Annual Governance Statement Post COVID

APPENDIX 3

2019/20 Issue	Current Risk to the Council	Action being undertaken	RAG Rating
<p>The Council’s arrangements for Service Continuity Planning enacted by the pandemic ensured essential services continued to be provided.</p>	<p>The Lockdown began on 24 March 2020 so the impact on the financial year 2019/20 was minimal.</p> <p>The Service Continuity arrangements implemented have continued to work ensuring service delivery within the Council up to the production of the Annual Governance Statement as at 31 May 2020.</p> <p>The risks to the Authority such as how demand for services initially suppressed by the pandemic will need to be managed in 2020/21. This is seen as an issue for the 2020/21 financial year and not 2019/20.</p>	<p>The Council is continuing to work in the operating model enacted during the pandemic until the full implications become clearer. These are kept under review but given the future uncertainty including the risk that further restrictions in working practices may be required it is difficult to assess what normal service provision will be in 2020/21.</p> <p>At present the Service Continuity arrangements are kept under review until more certainty becomes apparent.</p>	<p>Green</p>
<p>The financial resilience of key partners who provide services to the Council have deteriorated due to the COVID-19 pandemic which cannot be supported by the Council to guarantee continuity of service due to the Council’s future reduction in financial resilience.</p>	<p>The COVID 19 has shown there is uncertainty in how a selection of future services will be operated. Several services have been delivered in partnership in a manner which has limited the amount of financial contribution required from the Council. As the whole operating environment has now changed the previous operating model is under financial pressure.</p>	<p>Each individual request for assistance will be considered on a case by case basis. The Council recognises its responsibility as a key public body to assist in the resilience of third parties within an environment where it will not be possible to support every key partner at a level to ensure their resilience remains at a level pre pandemic.</p>	<p>Amber</p>

	<p>The risk to the Council is that there are several key partners who require support at a time when the overall Council finances are under pressure and this support needs to be prioritised.</p> <p>As this is a current issue it is something to consider at the end of the financial year 2019/20 for inclusion in the Annual Governance Statement.</p>	<p>Individual support to any organisation requested will be kept under continual review and support will only be agreed in accordance with agreed Council processes.</p>	
<p>The overall financial resilience of the Council at the end of the financial year 2019/20 is impacted by the COVID 19 pandemic.</p>	<p>The financial pressure from the pandemic with increased pressure on expenditure and reduced income will impact on the 2020/21 financial year. Given the Government arranged an element of emergency support a proportion of which was paid in 2019/20 then the potential impact on financial resilience will be 2020/21 and not 2019/20.</p>	<p>This links into a wider issue already included in the AGS whereby the future financial framework was already challenging pre-COVID. As such the issue already included in the AGS remains relevant with the risk enhanced for the pressure of COVID-19.</p>	<p>Green</p>
<p>The present contracted arrangements with a number of key suppliers needs to be reviewed and better documented so any amendments required in a future emergency can be streamlined.</p>	<p>Initial detailed work to respond to the COVID 19 pandemic has shown that in certain cases the present contractual arrangements with contracted third parties require improvement to protect the Council better should there be unforeseen events which impact on the service originally contracted for.</p> <p>As this is a current issue it is something to consider at the end of the financial year 2019/20 for inclusion in the Annual Governance Statement.</p>	<p>It is planned to develop the arrangements implemented to respond to COVID-19 to monitor the implementation of improved contract monitoring arrangements including undertaking a detailed review of the present contract documentation for contracted spend.</p>	<p>Amber</p>