

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

25 September 2023

Report of the Management Team

Part 1- Public

Matters for Recommendation to Cabinet

1 AUDITOR'S ANNUAL REPORT 2022/23

Our external auditors (Grant Thornton UK LLP) are required to satisfy themselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report on the same to those charged with governance - which for this purpose is the Audit Committee – followed by Cabinet and Full Council.

Grant Thornton believes there are two significant weaknesses in the Council's arrangements to improve economy, efficiency and effectiveness. These relate to procurement and performance management, and recommendations are made as to how this might be addressed. In addition, a number of improvement recommendations are also made.

Members are invited to consider the report and make any specific recommendations to Cabinet and/or Full Council as the Committee feels appropriate.

1.1 Introduction

- 1.1.1 The auditor is required to report on the Authority's overall arrangements for securing economy, efficiency and effectiveness in its use of resources, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.
- 1.1.2 Auditors are required to report their commentary on the Authority's arrangements under specified criteria. The criteria are financial sustainability, governance and improving economy, efficiency and effectiveness.
- 1.1.3 The 2021/22 Annual Audit Report was not published by Grant Thornton until December 2022 and was therefore not considered by the Audit Committee until 16 January 2023. There were no significant weaknesses identified in that year's report, but there were some recommendations which we had begun to act upon. Unfortunately, with the short space of time between the two reports and especially given the corporate impact of local elections, progress has been limited.

1.2 Auditor's Annual Report 2022/23

- 1.2.1 A copy of the Auditors Annual Report for 2022/23 is attached at **[Annex 1]**. The Engagement Lead, Sophia Brown, and/or her representative will be at the meeting to present the report and to answer questions.
- 1.2.2 Two significant weaknesses in arrangements have been identified by Grant Thornton relating to performance management and procurement under the heading 'Improving economy, efficiency and effectiveness'. This is discussed in greater details at paragraph 1.3 of the report.
- 1.2.3 For Members' information, 'Significant weakness' is the term used by the National Audit Office Code of Audit Practice. Where auditors identify significant weaknesses as part of their arrangements to secure value for money, it requires that they should make recommendations setting out the actions that should be taken by the Council. These recommendations are shown as 'Key Recommendations' within the report.
- 1.2.4 In addition, a number of 'improvement recommendations' are made which are addressed at paragraph 1.4. In comparison to key recommendations, improvement recommendations (if implemented) should improve the arrangements in place at the Council, but are not made as a result of identifying significant weaknesses in the Council's arrangements.
- 1.2.5 Members are reminded that the 2021/22 annual audit report highlighted some improvement recommendations but no significant weaknesses leading to key recommendations. A list of those previous improvement recommendations and the management response is set out at **[Annex 2]** for information.

1.3 Significant Weaknesses/Key Recommendations - Improving economy, efficiency and effectiveness

Performance Management

- 1.3.1 The first area identified by Grant Thornton pertains to the arrangements for performance management, with GT noting that '*Cabinet members cannot hold officers to account for performance if reporting is lacking*'; and '*in 2022-23 the Council still lacked a performance framework meaning it was reactive to challenge, rather than proactively forward planning or anticipating issues before they emerged*'.
- 1.3.2 Grant Thornton concludes that the Council needs to improve its performance management arrangements by:
- 1) Using the reset Corporate Plan to establish 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;

- 2) 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;
- 3) Agreeing performance outcomes, that can be measured, at least annually as part of the new performance management framework;
- 4) Ensuring performance reporting 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;
- 5) Ensuring the Cabinet receives quarterly performance reports to enable it to hold officers to account;
- 6) Using performance and financial data and benchmarking to look at delivery levels of statutory services to ensure the Council is achieving value for money;
- 7) Ensuring that the new performance management framework and reporting extends to key contracts such as waste and leisure;
- 8) Developing a strategic approach to assessing the levels of statutory services needed to save money;
- 9) Engaging with hard-to-reach customers to ensure they can still access services given the Council's digital by default approach;
- 10) Ensuring partnership performance management, including outcomes, is reported regularly to Cabinet; and
- 11) Engaging key stakeholders, where appropriate, to determine local priorities for resources or opportunities for savings.

1.3.3 Management Team fully recognise the importance of the provision of performance management information for Members and work did begin on developing appropriate tools following the last Annual Audit Letter. For information, Members are advised that prior to 2023/24, individual Services did report performance information but it is acknowledged that this was piecemeal. During 2022/23 a suite of KPIs has been reported to Scrutiny Select Committees, but it is acknowledged this is just one part of the 'journey' towards the provision of effective performance management tools.

1.3.4 The management response to the key recommendation made in respect of performance management is as follows:

“Following both this review and a Peer Challenge undertaken during 2022/23 a range of KPI’s have been introduced and, since the start of 2023/24, are presented to Members of Overview and Scrutiny Committee and the three

Scrutiny Select Committees at quarterly intervals after their review by Management Team.

Management agrees that KPIs should also be formally shared with Cabinet and it is intended that they will now be introduced to Cabinet agendas as well as making them a standard regular item on all service management teams. The range of information captured and reported will also be reviewed and refined over the coming months.

Management acknowledges, and agrees with, the recommendation about a 'golden thread'. The need for greater focus of resources towards 'Policy and Performance' is also recognised to act as the 'golden thread' between finance and performance across the organisation and to enable officers to understand how they could contribute to corporate delivery or identify savings and achieve value for money.

Benchmarking information is already in use in some service areas (e.g. treasury management and recycling) and is reported to relevant Committees to aid review of performance, but more generally work is already underway to look at a wider range of benchmarking information which can be used to inform areas for transformation and value for money assessments. It is expected that this will be developed over the next 12 to 18 months.

In terms of engagement with residents, a consultation was undertaken to inform the development of the new Corporate Strategy and assess local priorities. Management will liaise further with Cabinet about further engagement with residents on resources and options for savings.”

1.3.5 Members are invited to note and endorse this response.

Procurement

1.3.6 The second area concerns procurement. Grant Thornton concludes that the Council needs to improve its procurement and contract management arrangement by:

- 1) Updating its procurement strategy;
- 2) Ensuring the contracts register is monitored, kept up to date and used by all services;
- 3) Ensuring it fully meets the Local Government (Transparency Requirements) (England) Regulations 2015 legislation;
- 4) Having a suitably trained client lead for procurement and contract management;

- 5) Provide training for officers and members on procurement and contract management to enable them to fully understand their responsibilities for social value and value for money; and
- 6) Ensuring the Council's shared arrangements for fraud also include procurement and contract management.

1.3.7 As some Members will be aware, the Council does not have its own procurement expert and has relied upon a working group of officers from across the Council to 'manage' procurement, and has looked to other partner authorities to assist with the letting of larger contracts at appropriate times. This had helped to minimise annual 'corporate' costs to TMBC, but Management Team do recognise that this has meant that we have not progressed as quickly as needed with certain things due to the workloads of officers in their 'day jobs'.

1.3.8 In respect of the 'fraud' recommendation, Member can be assured that the SLA with Kent County Council covers all types of fraud that might affect the Council. Having discussed this with our Fraud lead, it has been agreed that procurement fraud awareness training will be offered to procurement leads during 23/24 and a rolling programme will be established.

1.3.9 The management response to the key recommendation made in respect of performance management is as follows:

"Management Team acknowledges that updating of the procurement strategy has been an outstanding matter for some time. The Council does not have its own procurement resource and has relied on a working group of officers from across the Council to discuss and deliver procurement priorities and monitor/update the contracts register. For the letting of significant contracts, the Council has always sought professional assistance externally, but it acknowledged that a lack of 'in house' expertise in this discipline has led to a lack of progress.

We are now having discussions with another Local Authority with a view to developing a SLA for both the review and revision of the Procurement Strategy along with a named officer for day to day professional advice who could also sit on the Procurement working group. In order to bolster the profile and importance of the procurement function, the Procurement working group will now be chaired by a member of Management Team. Appropriate training for both officers and Members will be developed by the group over the next few months.

With regard to the risk of fraud within procurement, the Council's SLA with Kent County Council's Internal Audit and Fraud team does already cover this activity. Procurement fraud awareness training will be offered to procurement leads during 23/24 and a rolling programme will be established"

1.3.10 Members are invited to note and endorse this response.

1.4 Improvement Recommendations

Financial sustainability

- 1.4.1 Two improvement recommendations were made under this heading relating to **transformation** and the **Workforce Strategy**.
- 1.4.2 Dealing firstly with Transformation, Grant Thornton recommends that the Council ‘*should develop a transformation programme to enable it to reduce spend by looking at different ways of delivering services or by enable others in its system leadership role.*’ Full details of the recommendation are shown on page 13 of the Annual Audit Letter itself.
- 1.4.3 Members may be aware that transformation was raised through the Peer Challenge Review process and is an action that is still in progress. The management response is as follows:

A Management Team/Cabinet LGA Development Day is being arranged for October, themed around transformation. It will look at development of the transformation programme and subsequently the resource requirement.

As part of the budgetary process for the Revised Estimate for 2023/24 and Forward Estimates for 2024/25 Services are asked to identify whether services provided were mandatory or discretionary to help develop an overall understanding of cost and priorities.

- 1.4.4 In terms of workforce strategy, the recommendation is to “*improve the Workforce Strategy to include fully costed strategy over the medium to long term.*” Full details are set out on page 14 of the Annual Audit Letter itself.
- 1.4.5 It is acknowledged that the current workforce strategy is relatively short term and needs to now reflect the ambitions of the Corporate Strategy – i.e. transformation, innovation and delivery. The management response is therefore as follows:

Future revisions of the Workforce strategy will include medium-term impacts requiring reviews of service delivery, succession planning, resilience as well as financial costing.

Governance

- 1.4.6 There are two improvement recommendations under the heading Governance in relation to, firstly, **Risk Management** and, secondly, to the **integration of performance and financial reporting**.
- 1.4.7 In respect of **Risk Management**, Grant Thornton have highlighted that there are: ‘*areas of risk management that need improvement particularly relating to the Strategic Risk Register format, member scrutiny and challenge on risk management, and reporting risk to Members in committee reports*’.

- 1.4.8 Members are aware that the Strategic Risk Register is reported routinely to this Committee and in turn this Committee will advise the Cabinet of red risks. Some improvement to the SRR has been introduced this year including the “direction of travel” indicators. An internal audit report was also undertaken which has highlighted some recommendations which will also be put in place.
- 1.4.9 Following the recommendations in the last Audit Letter, Zurich (the Council’s Insurers) have already been commissioned to undertake a training programme for staff as well as providing an independent review of the Risk Strategy.
- 1.4.10 The management response is as follows:

Some changes have already been made to the SRR to indicate direction of travel and further changes will be made over the next few months. In the light of both last year’s recommendation and an internal audit report (which contained similar recommendations) Zurich, the Council’s insurers, are being asked to review the Risk Management Strategy, formats of risk registers and risk training for new employees.

- 1.4.11 In terms of the integration of performance and financial reporting, Grant Thornton has commented that *‘Revenue reporting is at an appropriate level with clear commentary of the current position, but service and workforce information is not integrated into financial reports’*.
- 1.4.12 At the time of receiving the final draft report from Grant Thornton, consideration was still being given to the management response. Following discussions by Management Team, the proposed management response is:

Management Team are currently considering this recommendation and at the time of responding have not finalised a view. Further discussions will take place with Cabinet and Grant Thornton, as it is important that Members are not overloaded with operational data and can focus their attention on strategic matters.

- 1.4.13 A further, verbal, update will be given at the meeting following discussions with Grant Thornton.

1.5 Summary

- 1.5.1 Like Management Team, Audit Committee will no doubt find this a more sobering report given perhaps the ‘lighter touch’ nature of preceding reports. It is important that Members read this thoroughly.
- 1.5.2 Putting this into context, Members will be aware of the ‘turmoil’ within the local government sector with numerous s114 notices being issued by different councils.
- 1.5.3 At the present time, TMBC has an ‘in-year’ balanced budget and is not in immediate danger of this serious action. However, the funding streams for local government are precarious and becoming even more uncertain and with this in

mind our MTFS identifies the need to find savings of circa £1.7m over the next 4 to 5 years. Members agree that £0.5m of this should be identified and implemented by April 2024. Work is underway to deliver this target and it is intended that a progress report will be brought to Cabinet in October/November.

- 1.5.4 The Director of Finance & Transformation maintains a thorough budgetary control and forecasting regime, with regular reports to Members. However, some improvements are needed to our procurement and performance management processes as identified within the External Auditor's Annual Audit Report to strengthen the arrangements we already have in place and ensure that TMBC is delivering effective, efficient and economic services to the public. Above all else we must be able to say that all Services are achieving value for money.
- 1.5.5 A partnership approach between Members and officers will be needed to ensure that we can respond to, and satisfy, the challenges set out above.

1.6 Legal Implications

- 1.6.1 The Council's external auditor is required under s20(1)c) of the Local Audit and Accountability Act 2014 to satisfy themselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.6.2 The Code of Audit Practice issued by the National Audit Office in 2020 requires us (Grant Thornton UK LLP) to report to you our commentary relating to proper arrangements.

1.7 Financial and Value for Money Considerations

- 1.7.1 As set out in the Auditor's Annual Report.
- 1.7.2 It has been established that the Auditor will not need to carry out any additional work as a result of identifying the two significant weaknesses above and therefore no additional fees should accrue.

1.8 Risk Assessment

- 1.8.1 Grant Thornton identify two significant weaknesses leading to key recommendations. It is important that both Members and officers actively respond to these matters as quickly as possible in order to protect the Council and its services to residents.

1.9 Equality Impact Assessment

- 1.9.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.10 Policy Considerations

1.10.1 Business Continuity/Resilience

1.11 Recommendations

1.11.1 Members are **RECOMMENDED** to:

- 1) Consider and approve the Auditor's Annual Report [**Annex 1**] for 2022/23;
- 2) Note the key recommendations made in respect of 'performance management' and 'procurement' and endorse the management comments;
- 3) Note and endorse the management comments to the improvement recommendations made; and
- 4) Make any specific recommendations to Cabinet and/or Full Council as the Committee feels appropriate in light of the Annual Report.

Background papers:

Nil

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