

## Financial Scrutiny Webinar with CfGS and Guy Clifton

Recently CfGS held a webinar about financial scrutiny in collaboration Guy Clifton, from the auditing firm, Grant Thornton- the leading financial, business and auditing firm.

Guy joined Grant Thornton in 2007 where he has held a number of senior consulting and advisory roles, including five years as head of local government advisory. His main focus is the local government sector and his expertise includes public financial management, service improvement, governance and collaboration.

CfGS and Grant Thornton have worked together previously on a range of publications such as, [‘Moving on with Financial Scrutiny’](#) and [‘Raising the stakes’](#).

CfGS has more recently published some reports and guidance on financial scrutiny, mentioned in the webinar, which are listed in the appendix.

You can watch the webinar on our Youtube channel here: [Financial Scrutiny Webinar with CfGS and Guy Clifton - YouTube](#), the group work sessions were not recorded, but the plenary sessions are.

Below we will detail topics covered in the webinar and delve into issues and questions that were raised by fellow colleagues in the scrutineer sphere.

The agenda was as follows:

- Introductions and objectives
- Guy Clifton:
  - o Lessons from public interest reports for finance scrutineers.
  - o Why, and how, is effective financial scrutiny central to councils’ ability to deliver a balanced budget, and to deliver Best Value?
  - o What are the negative results when members’ financial oversight is less effective?
  - o What should members expect to look for when scrutinising budget development, and in-year financial performance? To draw on lessons arising from the recent Grant Thornton Public Interest Report.
- Q&A
- Budget scrutiny, CfGS:
  - o Reflecting on current plans and current activities.
  - o Small group working to share current plans on budget scrutiny for 23/24 and to consider elements that have (or haven’t) worked well
- Feedback
- Approaches to in-year financial scrutiny – drawing on CfGS research: presentation followed by Q&A

### The content of the webinar

Firstly, the role of the auditor was explained by Guy, which is explained below:

- The NAO Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014:
  - o Opinion on the financial statements
  - o Value for Money
  
- Auditors have statutory functions that can be enacted if they have concerns, including the issue of:
  - o Statutory Recommendations which require a public response from the council. These can be issued at any time.
  - o Public Interest Report can be on any matter coming to the auditor's notice during the audit.

The [2014 Local Audit and Accountability Act](#) set out the code for local auditors and local public bodies. The code is reviewed and refreshed every five years by parliament and was most recently updated in 2021.

There were there were 3 PIRs in 2021 and Grant Thornton then published their lessons learned reports – that was the case for their first report (March 2021) with the three PIRs being published between Aug 2020 and Jan 2021. There were then various other PIRs and stat recs, which led them to publishing our second report in Sept 2022. These can be found in the appendix.

The key themes from their second report, cut across five broad thematic:

- Leadership, cultural and governance failures
- Failure to understand and manage the risks associated with external companies
- Failure to address and resolve relationship difficulties between senior officers and members
- Financial capability and capacity
- Audit Committee effectiveness

The 'parent theme' is 'leadership and culture', as this can often be the heart of the problem. It is here where it can go badly wrong, for example, there may be a culture of denial, institution blindness, a lack of making U-turns, secrecy and a culture of lack of transparency and engagement with key decision makers.

Connected to all of this, there has been years of austerity, Brexit, the cost-of-living crisis energy, and record inflation- all which have had significant challenges impacting upon local government.

Many in the sector have responded to these challenges by changing their risk appetite, opting for more innovative, commercial decisions, such as setting up Local Authority trading companies. This is where the second thematic comes in 'Failure to understand and manage the risks associated with external companies'. Here, there may be a lack of business expertise and reason. It is important that officers and members are able to acknowledge and find where it has gone wrong and that due diligence has taken place.

With regards to the third thematic, ‘failure to address and resolve relationship difficulties between senior officers and members’ there may be long-standing challenging relationships, between senior officers and members, a diminishment of standards and code of conducts and a culture of whistle-blowers being ignored.

In relation to the fourth thematic, ‘financial capability and capacity’ the finance sector, particularly so in the local government space, has lost a lot of people resources and corporate memory. Though not all councils that have reduced their headcount have experienced problems, but this is a recurring theme.

This leads us to the fifth thematic, ‘audit committee effectiveness’. In several cases there has been evidence that that there is ineffective chairing, members and officers conducting business in an inappropriate way, a lack of engagement with key decision-makers, a lack of scrutiny and the use of external legal advice which can cause issues.

Guy offered some practical steps to safeguard from the thematic lessons, which can be found below:

- Regular reviews of key governance policies such as the Constitution, whistleblowing and confidential reporting, fraud prevention and anti-corruption policies
- Code of Conduct training for Members and Officers
- Training in external companies and update this regularly, for both Members and Officers
- Skills audit where Members and Officers are directors of companies. Buying-in appropriate independent professional advice.
- Explicit shareholder agreements and nominated shareholder representatives
- Regular reviews of complaints. Conflict of interest management for investigations and grievances
- Training needs assessments and succession planning for finance teams
- Capacity assessments/ vacancies identified/ clear plans developed for preparing financial statements
- Consider the CIPFA Financial Management Code and what actions are required to ensure full compliance with these requirements
- Training for Audit Committee members; annual self-assessment of Committee effectiveness; consider commissioning independent review of effectiveness
- Action Plans for open Audit Committee recommendations
- See internal and external audit as critical friends. Challenge to be seen as an opportunity to reflect

### Financial scrutiny

Below is the CIPFA financial management code. This is important, because though may think S151 officer is the sole individual responsible for financial management, they are not. It is cultural issue within the council, it should involve the actions and behaviours of both officers and members and not just systems and processes:

“It is for the leadership team to ensure that the authority’s governance arrangements and style of financial management promote financial sustainability.

The FM Code when referring to the concept of the leadership team includes executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.”

“Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.”

Guy then outlined the roles and responsibilities of those involved in financial scrutiny:

- Council: agreeing policy and budget framework
- Cabinet: proposing policy and budget framework, key strategies including financial strategy, MTFP and annual budget
- Corporate Management Team: operational delivery, performance (including financial) monitoring. Compliance with legal duties
- Scrutiny Councillors: assisting cabinet in development of properly costed policies and budget proposals, monitoring service and financial performance, examining impact of decisions and policies, ensuring accountability of council leadership, scrutinising external service providers.

#### Factors for effective financial scrutiny

Guy set out the factors affecting councillors' roles in financial scrutiny which are detailed below:

- Forward planning
- Effective communication and working relationship with the Executive
- Deployment of key skills and experience
- Training, support and development
- Understanding financial planning, financial management and financial control approaches & tools
- Knowing what questions to ask

#### Knowing what questions to ask

Following on from the above, whilst scrutineers are not expected to be financial experts, it is conducive to the process and for effective scrutiny to be able to ask the right sort of questions. Below is a list of suggested questions to ask provided by Guy:

Questions-

- What are the areas of high risk, is the authority facing any new risks?
- Have our strategic objectives changed ?
- Are resources aligned to our strategic objectives?
- Does the MTFP include outcome measures, scenario planning, benchmarking?
- Have future demand patterns been effectively modelled and sensitivity analysis undertaken?

- Have changes in the external environment impact on resource requirements?
- How achievable is our savings plan?
- How does the Council pay for borrowing and what is the approach for Minimum Revenue Provision (MRP)?
- Are reserve levels sustainable (GF and earmarked reserves) and what is their proportion of net revenue expenditure?
- Are income projections realistic?
- How can officers demonstrate that key assumptions are accurate and robust?
- Are there alternative ways of delivery available that haven't been considered?
- Are there any new ways of generating income?
- Does your council know when to call on appropriate support

### Group work

Unfortunately, the group work was unable to be recorded, but Ed and Guy gave summaries of the themes which will be stated below.

Ed and Guy advised that in the groups he had joined, many were concerned about time scales. Specifically, about scrutineers not being included early enough in the process. They stated that people have found that expectations had shifted back in terms of timing- usually you would expect the budget scrutiny process to begin earlier in the year, but many have seen this shift back several months, which is worrying because it lessens scrutiny's role.

Individuals raised the matter of training. For members to scrutinise effectively, member training is undoubtedly importance. However, whilst training is crucial, it is just part of the picture. Looking at scrutiny from a strategic perspective and knowing what questions to ask is also part of this picture. Members have a unique perspective that officers may not have and an understanding of the needs of their community and constituency. Where the greatest benefit of scrutiny is going to lie is examining the fundamentals and assumptions behind the budget. Of course, it is important to look at the budget forensically, but there needs to be a balance struck. With regards to officers, sometimes there is little understanding of the member role of what scrutiny is meant to be doing. Again, ensuring that scrutiny is focusing on those strategic points can aid this understanding and communication.

Political independence was another issue that arose. Budget scrutiny is apolitical and needs to be seen as independent- not being influenced by party political issues, such as chairs who are members of majority party, limiting the scope of budget scrutiny.

Availability of information causing a delay, was mentioned, in terms of there been a difficulty for officers in finding getting basic information. Though this may vary from council to council and is likely from a lack of resource.

### CfGS- Approaches to in-year financial scrutiny

Following the group work, Ed presented on 'approaches to in-year financial scrutiny' which will be detailed below.

### What in-year monitoring can look like

- Not the same as bringing financial outturns, or other technical documents, to scrutiny meetings
- It's using that regularly-produced information to make judgements about where pressures on finances currently lie
- Where are underspends / overspends emerging? How and where are risks developing? How is the council dynamically managing that situation?
- To what extent is the council confident in its ability to deliver a balanced budget?

### The audit / scrutiny relationship

- In-year monitoring is something that both a scrutiny committee and an audit committee can do
- Audit has a set of key regulatory duties around finance – scrutiny needs an awareness of audit and finance issues in order to inform its wider work
- Dialogue and communication between chairs and officers is important
- Scrutiny may be better placed to look at the broader policy implications of the in-year financial position

### In-year scrutiny and audit

Below is how to differentiate between audit and scrutiny committees:

- Audit Committee:
  - o High level focus on audit, assurance and reporting
  - o Monitors effectiveness of controls, risk & governance arrangements
  - o Monitors effectiveness of, and relationship between, assurance sources
  - o Makes recommendations, has some delegated powers
  - o Provides independent Assurance
  - o Independent of Cabinet and Scrutiny Functions
- Scrutiny Committee
  - o Scrutinise decisions and performance
  - o Being a 'critical friend' and source of challenge to Cabinet
  - o Undertake scrutiny of partners and partnerships
  - o Non decision making
  - o Can make recommendations (to Council, Service Committees or Officers)
  - o Holds decision makers accountable

### Questions and answers

Ed and Guy then fielded some questions from colleagues which are stated below:

Question: 'One issue that can arise is that Senior Executive officers often advise that modelling/estimating projections have been done well and go onto explain why. However, it still ends up being wrong and income targets don't get met - how can we mitigate that optimism bias as scrutineers?'

Answer: To add an adjunct to that, generally those at executive level will not accept they have an optimism bias, so how do you get beyond that? Some approaches can be: financial benchmarking and getting an understanding of how the council compares to its neighbours. On the latter, if you were to for example, take unit costs, if they are high, it is important to understand why this is. It may be because different councils have different policy prioritisation, or they might be doing things better. Alternatively, there may be insularity and deficiencies in your council. Looking outwards and seeing what other organisations are doing is good ways of managing optimism bias. It is worth noting that [‘nearest neighbour data’](#) can be found on the CIPFA website and they also have a [financial resilience index](#).

Question: Constructive challenge is fundamental to success but so very easy to frustrate. My view is that to prevent very serious problems your best recourse is to enlist external bodies CIPFA, CfGS, auditors etc. and listen to them very carefully. Thoughts?

Answer: How do you prove things aren’t going right? A lot of the time it comes from experience. You must ensure that you are deploying skills that are appropriate and identifying those things that don’t feel right. You may want to seek support, this could be within council or externally, some scrutiny can commission budgets research .

Question: With regards to alignment between scrutiny and audit committees, how linked up should they be?

Answer: This is very important. Communication is key. This includes, sharing forward plans, having effective pre-meets and both committees examining how they engage with the executive. As you will know, but worth a reminder- both those bodies are apolitical and there should be regular dialogue between chairs and vice chairs.

## Appendix

### Articles mentioned in the webinar:

- Grant Thornton (Guy Clifton and Paul Dossett) Lessons from recent Public Interest Reports: <https://bit.ly/3EwjBCm>
- CfGS (Ed Hammond) Financial scrutiny practice guide: <https://bit.ly/3txshSI>
- CfGS (Ed Hammond) Our governance risk and resilience framework- <https://bit.ly/3Aj42vv>

### Information on CfGS training

<https://www.cfgs.org.uk/training/>