Division(s):

AUDIT & GOVERNANCE COMMITTEE – 9 NOVEMBER 2016

FINANCIAL CONTROL IMPROVEMENT PLAN

Report by Chief Finance Officer

Introduction

1.   In July 2016, the Committee approved the Financial Control Improvement Plan (FCIP)(Annex 1). This report sets out the progress made against that plan, and current priorities.

Background

2.   In July 2015, the Council went live with a new partnership for delivering HR and Finance transactional operations through Hampshire County Council's Integrated Business Centre (IBC).

3.   The transfer of transactional services to the IBC resulted in a fundamental change to the systems and processes operated within OCC.

4.   The Chief Finance Officer commissioned Internal Audit to undertake a review of the design of controls within the new systems and procedures being operated by OCC staff. The internal audits focussed initially on the design of control, followed up with a second series of audits focussing on substantive testing to establish whether the systems are operating effectively.

5.   The internal audits identified a series of control issues within the financial systems, including across all the financial systems reviewed, out of date, insufficient or absence of procedures leading to errors and delays plus insufficient monitoring and control.

6.   In March 2016 the Chief Finance Officer created the post of Assistant Chief Finance Officer (Assurance). Included in the responsibilities of the post is the requirement to manage the corporate financial systems and the regulatory framework underpinning the system of financial control. Following the results of the internal audits the Assistant Chief Finance Officer has been tasked with delivering a FCIP.

Transformation

7.   The Council has established a Transformation Programme reporting to a Transformation Board that comprises of Chief Officers and the Deputy Leader. The FCIP is now incorporated as a deliverable of the "Driving Business Efficiencies" work stream within the programme. The work stream is sponsored by Lorna Baxter, Chief Finance Officer.

8.   Having efficient financial systems and policies, underpinned by effective financial controls that are proportionate to the financial risk exposure, is an essential component of Transformation, therefore by integrating the FCIP into the "Driving Business Efficiencies" work stream will ensure that financial controls are consistently designed as part of the change management.

Progress Highlights

Roles and Responsibilities

9.   The two priority areas for reviewing roles and responsibilities have been the Corporate Procurement Team and the Income and Banking team. These have been completed and responsibilities clarified. Both teams continue to provide a stewardship role, as well as leading on process development and redesign.

10.   Management information from SAP is now being received or routinely accessed to enable identification of performance issues for targeted support or process review.

11.   The teams are also supporting the development of strategic solutions for more efficient and effective financial systems and services. This includes:

- Commissioning of a prepaid card solution for supporting people related services.

- Alternative purchase to pay methods, including use of embedded purchasing cards.

- Online order and payment process for services provided by the Council.

Regulations / Policies / Procedures

12.   In conjunction with defining the roles and responsibilities, the teams have been supported by the Business Process Analysts from the Customer Services Centre to determine the current work streams, defined as either business and usual, task and finish activity, or query resolution. This is enabling the team to plan resources accordingly and prioritise activity. The development of regulations, policies and procedures is then being undertaken on a priority basis but the ownership is now clearly within these teams.

13.   As we seek more automation and efficiency in our systems, for both internal and external users, self-help is an underlying principle. Maintaining effective support and guidance material on both the Internet (external) and Intranet (Internal) is essential. We are currently reviewing core policies and regulations, and in this quarter are planning a series of workshops with Finance staff and the Web Content Team to review and adapt existing guidance to ensure it is both up to date, consistent in design and presentation, and accessible through logical search enquiries.

14. In addition to the work within OCC, the Finance Leads continue to work closely with colleagues in the IBC, who also monitor and maintain online guidance for using the Finance and HR systems. They review this guidance on a continuous basis, from the insight obtained from customer contact, and performance.

Training / Self Help

15. There continue to be drop in sessions and targeted support for staff to speak to colleagues in Finance and HR to help resolve any difficulties they are experiencing in using the IBC and related systems; however, we are actively encouraging the use of the IBC help options for two reasons; firstly this is the business model that they provide that first line support; and secondly, they analyse the customer/supplier contact under their continuous improvement process.

16. The insight gained through the customer/supplier contact is essential information that will in future be reviewed at the "professional lead" meetings with the IBC that will enable targeting areas of poor performance and focus on root causes. This is including where appropriate, in conjunction with the IBC, updating or revising self-help material and guidance, and providing targeted support.

Financial Reporting

17. The Corporate Finance Team has been reviewing the forecasting, budget monitoring and financial reporting process to look at options for improving the processes to ensure they are delivering on the outcomes expected in the most efficient way. The process is currently very resource intensive, for both Managers and also Corporate Finance.

18. The initial findings of the review is indicating opportunities for more automation and reduced staff time for the forecasting process, and a need for greater integration between finance data and performance data for more effective budget monitoring.

Management Control

19. Since the last update in September the County Procurement Team is now receiving reports from the IBC in relation to blocked invoices (those that are awaiting management action before they will process); and approval of procurement card spend.

20. The first report is an aged analysis of blocked invoices that we will be using to identify the cause of any material delays, and determine the action to address any underlying issues, for example through training or in some cases process review.

21. The second report provides assurance on compliance with the purchasing card system where managers should be approving transactions. The internal audit report has previously highlighted this as an issue.

S151 Assurance Framework

22.   No further work has been undertaken with regard to the assurance framework. This will be developed as the Transformation Programme progresses.

Financial Systems

23.   CONTROCC (the Adult Social Care Finance Module) remains a priority for development of the financial processes. The development of an automated interface with SAP is on-going and on target for completion in January. The systems and processes for managing the data for the creation of the payments interface are being reviewed, along with responsibilities for performing key tasks in the process. This includes the sourcing and placement process, budget approval, master data management, and feeder systems. A key feeder system is the Electronic Time Management System which is currently out to tender. It is expected that following the tender there will be the opportunity to use the functionality of an ETMS system to enhance the payments process with automated effective financial control.

24.   Following a recent review of Payment Card Income Systems to provide assurance over PCI Compliance (Payment Card Industry Standards), some changes have been required to our systems to ensure we are compliant. The implementation of these changes is on-going.

25.   A key activity this quarter is developing the availability of on line purchasing of OCC services. This already exists for a small number of services, but we are investigating the opportunity of using the established IBC system going forward.

26.   Debt management remains an area of on-going improvement, and the focus this quarter is developing performance measures to monitor the recovery of debt and therefore the effectiveness of our debt recovery system. The Adult Social Care Debt is being managed within OCC, and the new team has developed procedures for this activity, supported by the Corporate Income Manager.

27.   We are about to commence a review of bank accounts with an objective to reduce the number in operation, including imprest accounts. This is being targeted now, as we are currently working with our Bankers to reduce the burden on the Banking Team with regards to the management of bank mandates. Reducing the number of bank accounts will require provision of alternative methods of transacting; however, the alternative methods such as prepaid cards and purchasing cards provide greater security and transparency, therefore improving financial control.

Bulk Data Uploads (BDU)

28.   This continues to be given top priority. We have established a council solution as part of the digital platform being implemented to support the delivery of the Digital Strategy. The digital platform is a priority with the Transformation Programme, as it is fundamental to the future operating framework.

29.   We are currently developing the interfaces from CONTROCC with a target for implementation by end of December 2016.

30.   The timetable for further rollout has not yet been drafted but will be set out by the end of November. It is expected that the target of 31 March 2017 will be achieved.

31.   Crucially, the implementation of interfaces will include an end to end review of the systems to ensure they are aligned to Transformation principles, and provide lean financial processes. This work has already commenced for CONTROCC with the Assistant Chief Finance Officer, working in conjunction with the Service Manager Transforming Social Care, in leading a full review of the financial processes. This work is being undertaken in full collaboration between Adult Social Care, ICT and Finance.

32.   All of the existing use of BDU for generating payments have been mapped by the Business Process Analysts, and where a system to system interface can be developed it will form part of the programme above; however where the spread sheet upload is used to facilitate payment without use of a purchase order, these are subject to further review and we are working with IBC and Service Areas to consider alternatives. Alternatives for two existing BDU uploads are currently being designed:

-   Utility Payments

-   Insurance

IBC Review

33.   There are no material changes to update the Committee on.

34.   This was another high priority action in the Financial Control Improvement Plan. The governance arrangements have been reset, and a "client side" management function has been established. There are now monthly "Partnership Management Group" meetings where that management team meets with Senior Management at the IBC to ensure strategic issues are being addressed and progressed, and performance issues considered.

35.   The Internal Communications Team is now fully integrated into all communication and meetings with Senior Managers in the IBC to ensure managers and staff are kept informed of actions and progress.

36.   Professional Lead meetings have been re-established, with clear terms of reference, with an emphasis on partnership working looking at strategic issues and opportunities for improvements both within IBC operations but also using insight from the IBC to investigate inefficiency with OCC.

Financial and Staff Implications

37. It is expected that the delivery of the plan will be resourced through current teams. There are no immediate cost or staff implications, although there will be a need to prioritise work; however the overall objective is to provide efficient and effective financial management systems, policies and procedures, therefore opportunities requiring investment may be identified. These would need to be considered and agreed by the Transformation Board.

Risk

38. There is an inherent risk of loss or error where financial control is not managed effectively. The objective of the improvement plan is to deliver financial control that is based on strong risk awareness.

RECOMMENDATION

39. **The Committee is RECOMMENDED to note the report.**

Lorna Baxter
Chief Finance Officer

Background papers: None

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