

**Audit and Governance Committee****Friday, 15 March 2019, County Hall, Worcester - 10.30 am**

<b>Present:</b>		<b>Minutes</b> Mr R W Banks, Mr A I Hardman, Dr A J Hopkins, Mr L C R Mallett, Mr P Middlebrough, Mr C Rogers, Mrs E B Tucker and Ms R Vale
<b>Available papers</b>		The members had before them:  A. The Agenda papers (previously circulated); and  B. The Minutes of the meeting held on 14 December 2018 (previously circulated).
<b>494</b>	<b>Apologies and Named Substitutes (Agenda item 1)</b>	An apology was received from Dr A Hopkins.  Mr A I Hardman substituted for Dr A Hopkins.
<b>495</b>	<b>Declarations of Interest (Agenda item 2)</b>	Mr P Middlebrough declared an interest in Agenda items 8 and 9 as the lead Conservative Group representative for the South West on the LGA.
<b>496</b>	<b>Public Participation (Agenda item 3)</b>	None.
<b>497</b>	<b>Confirmation of Minutes (Agenda item 4)</b>	<b>RESOLVED</b> that the Minutes of the meeting held on 14 December 2018 be confirmed as a correct record and signed by the Chairman.
<b>498</b>	<b>Statutory Accounts 2018/19 - Accounting Policies (Agenda item 5)</b>	The Committee considered the Statutory Accounts 2018/19 – Accounting Policies.  <b>RESOLVED:</b> that the accounting policies for 2018/19 be approved.
<b>499</b>	<b>Corporate Risk Report - Education and Buildings</b>	The Committee considered the Corporate Risk Report - Education and Buildings,  In the ensuing debate, the following principal points were raised:

**(Agenda item 6)**

- Michael Hudson indicated that it was important to be able to demonstrate that the Council was taking the necessary action to mitigate identified risks. Ideally, all the risks would be identified as green but realistically with the financial pressures facing the Council this was not possible and risks identified as amber were considered tolerable. A new risk register format would be reported to the July Committee meeting
- In response to a query about corporate buildings and schools, Michael Hudson indicated that he was confident that the outstanding works would be completed this financial year
- The Chairman welcomed the report because it gave a clearer understanding for members of how the risks had been assessed.

**RESOLVED: that the report outlining in detail evidence of mitigation (current and planned) against the corporate risk areas of education and buildings be noted.**

**500 Internal Audit Progress Report - 1 November to 28 February 2019 (Agenda item 7)**

The Committee considered the Internal Audit Progress Report - 1 November to 28 February 2019.

In the ensuing debate, the following points were raised:

- Michael Hudson indicated that although 82 recommendations remained outstanding, none of the issues identified were considered serious enough to require a Director to report to the Committee. Discussions continued to take place with officers on the remaining outstanding recommendations. The process continued to be a moveable feast with new audits being continuously added to the plan. The main reason for the outstanding recommendations was the over-optimism of managers in their assessment of the time necessary to complete the audit work. Future targets needed to be challenging but realistically achievable and where an interim management arrangement was in place - signed off by the Strategic Leadership Team (SLT)
- The Chairman welcomed the report as it gave a clear understanding of the reasons for the outstanding audits which allowed members an opportunity to challenge. All directorates should now understand that outstanding audits needed to be dealt with in accordance with timescales. The prioritisation of this issue at SLT level was also

**501 External Audit -  
Audit Progress  
Report and  
Sector Update  
(Agenda item 8)**

welcomed

- Garry Rollason explained that two school themed audits had been given a limited level of assurance. Investigations had been necessary at two schools following concerns expressed by the school finance team which showed that control mechanisms were working. Michael Hudson added that on the advice of the Head of Legal and Democratic Services, these schools had not been named for confidentiality reasons
- In response to a query, Garry Rollason commented that the concerns expressed by the school finance teams did not relate to the bullying of staff but rather unsuitable practices carried out by figures at the school
- Was the limited level of assurance given to these school themed audits reflective of the performance of schools in general? Garry Rollason responded that given the small sample involved, it was difficult to say whether the outcomes were reflective of issues experienced in schools in a broader sense. It was important to ensure that all schools were made aware of the issues identified. Michael Hudson added that there had been a significant increase in the number of audit days allocated to schools
- Were officers concerned that the performance of schools could be an issue in the future? Michael Hudson responded that as school budgets became more constrained, schools were more likely to cut corners and take risks. It was therefore important to maintain a check on this area and share best practice
- In response to a query, Michael Hudson indicated that discussions would be held with schools to see whether they would pick up the cost of this extra audit work.

**RESOLVED:** that the Internal Audit Progress Report attached as an Appendix to the report be noted.

The Committee considered the External Audit - Audit Progress Report and Sector Update.

Peter Barber and Helen Lillington from Grant Thornton, the Council's external auditors attended the meeting and made the following points:

- Grant Thornton were currently on site and good progress was being made with the audit of the Council's accounts

- Significant progress had been made in addressing concerns about Property, Plant and Equipment although more work was needed to be done
- There remained challenges resulting from the information provided by the Council's E5 financial system. More testing was necessary which would add to the external audit fee although this additional work would be kept to a minimum
- It was important to get the draft accounts ready by the end of May deadline so that everything was in order for the interim visit by the external auditor
- Work was being focused on the valuation of the Pension Fund investments. In the light of Brexit, the market was volatile therefore the external auditor was keen to understand how the Pension Fund satisfied itself that the valuation at year-end was materially accurate.

In the ensuing debate, the following points were raised:

- In response to a query about the usefulness of financial forecasting tools given the bleak financial position facing councils, Peter Barber commented that the Financial Foresight Platform tool developed by Grant Thornton supported the Council's existing arrangements to look at demand-led services. The tool enabled access to data from other councils and allowed managers access to all the necessary information to make decisions
- In response to a query about the Pension Fund's relationship with LGPS Central, Helen Lillington advised that Grant Thornton undertook audit work for a number of pension funds who were part of the pooling arrangements. The key issue was for the Council to gain a level of assurance that the information received from the Pool was accurate. A particular issue was Level 3 investments. As the pooling arrangements developed, it was hoped that a clearer understanding of the progress of other funds would emerge. Michael Hudson added that there was still time before the first transition of emerging markets funds in September
- In response to a query about the quality of information provided to the external auditor, Michael Hudson commented that the initial configuration of the E5 financial system had made the audit work more complex and increased risk. The key challenge now was to reconfigure the system but this needed to be done at the right

**502 External Audit Plan - Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund (Agenda item 9)**

time. Jenni Morris added that there had been issues with the linking of codes in the system which had led to the correction of miscoding errors

- Helen Lillington indicated that the normal substantive approach to auditing the accounts might not be appropriate with the Council's E5 financial system. In future years it might be appropriate to undertake some control testing as part of the interim visit. It would be appropriate to undertake some control testing at the interim visit. Jenni Morris indicated that Quality Assurance work was being carried out to ensure that the paperwork supplied to the external auditor was higher quality. Helen Lillington responded that, although queries remained, the standard of the paperwork received to date had improved
- Michael Hudson indicated that a report on Financial Resilience following CIPFA guidance would be brought to a future meeting
- Did the Council have access to Grant Thornton's new Financial Foresight Platform (FFP) through the existing external audit fee? Peter Barber responded that discussions would be held with the Chief Financial Officer to explain the fees associated with this new platform. Michael Hudson added that the Council had a three year contract for the use of the CFO Insights platform. Helen Lillington indicated that any additional fees would be disclosed in the audit findings report
- In response to a query, Peter Barber commented that the Council would be informed if any reference was made to it in the FFP.

**RESOLVED that the External Audit – Audit Progress Report and Sector Update be noted.**

The Committee considered the External Audit Plan - Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund.

Peter Barber and Helen Lillington from Grant Thornton, the Council's external auditors attended the meeting and outlined the key findings in the report.

**RESOLVED that the External Audit Report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund be noted.**

<b>503</b>	<b>Internal Audit Plan 2019/20 (Agenda item 10)</b>	<p>The Committee considered the Internal Audit Plan 2019/20.</p> <p><b>RESOLVED</b> that the Internal Audit Plan for 2019/20 and the revised Internal Audit Charter be approved.</p>
<b>504</b>	<b>Update on Finance Improvement Plan (Agenda item 11)</b>	<p>The Committee considered an update on Finance Improvement Plan.</p> <p><b>RESOLVED</b> that the report be noted and that a further update is brought to the September Committee.</p>
<b>505</b>	<b>Commissioning External Audit Conclusion Progress Report (Agenda item 12)</b>	<p>The Committee considered the Commissioning External Audit Conclusion Progress Report.</p> <p>In the ensuing debate, the following points were raised:</p> <ul style="list-style-type: none"> <li>• Michael Hudson undertook to provide an informal update to members of the Committee following consideration of the progress on Commissioning at the meeting of the Corporate and Communities Overview and Scrutiny Panel on 8 May</li> <li>• Helen Lillington indicated that work was ongoing but the external auditor was satisfied that the Council's approach to commissioning arrangements was heading in the right direction.</li> </ul> <p><b>RESOLVED</b> that the progress in the report be noted.</p>
<b>506</b>	<b>Work Programme (Agenda item 13)</b>	<p>The Committee considered its work programme,</p> <p><b>RESOLVED</b> that the work programme be noted.</p>

The meeting ended at 12.00 Noon.

Chairman .....