

Audit and Governance Committee

Monday, 29 July 2019, County Hall, Worcester - 10.30 am

Present:

Minutes

Mr R W Banks, Mr A I Hardman, Dr A J Hopkins,
Mr P Middlebrough, Mrs E B Tucker and Mrs R Vale

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 15 March 2019 (previously circulated).

507 Election of Chairman

RESOLVED that Mr P Middlebrough be elected
Chairman for the meeting.

Mr P Middlebrough in the Chair.

508 Apologies and Named Substitutes (Agenda item 1)

Apologies were received from Mr N Desmond and Mr L C
R Mallett.

Mr A I Hardman substituted for Mr N Desmond.

509 Declarations of Interest (Agenda item 2)

None.

510 Public Participation (Agenda item 3)

None.

511 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held
on 15 March 2019 be confirmed as a correct record
and signed by the Chairman.

512 Internal Audit Annual Report 2018/19 (Agenda item 5)

The Committee considered the Internal Audit Annual
Report 2018/19.

In the ensuing debate, it was requested that the
presentation of the Annual Report be reviewed to ensure
that any diagrams were clear to understand in black and
white.

RESOLVED that the Internal Audit Annual Report

**513 Statutory
Accounts and
Pension Fund
2018/19 -
External Audit
Findings Report
(Agenda item 6)**

2018/19 set out in the Appendix to the report be endorsed.

The Committee considered the Statutory Accounts and Pension Fund 2018/19 - External Audit Findings Report.

In introducing the report, Michael Hudson, the Chief Financial Officer commented that there were no issues of materiality arising from with the Accounts. Discussions had taken place with the external auditor about the correct treatment of the issues arising from the McCloud judgement. He endorsed and supported the external auditor's report.

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

- Work would continue with officers to finalise the Accounts up to the statutory deadline on 31 July. The key areas had all been covered in the report and no additional significant issues needed to be brought to the Committee's attention since its publication
- The Council's actuary had assessed the impact of the McCloud judgement on the Accounts. An adjustment to the Accounts of £6.5m had been identified. Grant Thornton had commissioned its actuary to challenge that finding and found it to be satisfactory
- Two further errors had been identified. Firstly, a technical issue relating to the £12.4m classification difference on the face of the Comprehensive Income and Expenditure Statement. It was considered that this did not impact on the outturn figure. Secondly, a technical accounting adjustment relating to £6.1m of capital grants that had been incorrectly accounted for. Officers did not consider this to be a material amount and consequently had not adjusted the Accounts. The external auditor was comfortable with that approach
- The external auditor intended to issue an unqualified opinion on the Accounts
- In relation to the Value for Money conclusion, the Council's commissioning arrangements had been reviewed. It was found that substantial improvements had taken place since last year and these arrangements were now considered satisfactory. Since the publication of this report, the Ofsted judgement on the Council's Children's Services had been received. It indicated that the

service “requires improvement”. This was an improvement on last year and provided an assurance that the service was no longer a cause for concern. Assurance could therefore be given that the Council had VFM arrangements in place with no exceptions

- The report identified the significant findings – audit risks. No issues had been identified in relation to the revenue cycle including fraudulent transactions and the management override of controls. The assessment of the risk associated with the valuation of Property, Plant and Equipment had proved problematic and the working papers had been delayed. Arrangements had improved and it could now be confirmed that an assurance could be given that the material value was not different from the real value. Following the assessment of the implications of the McCloud judgement, the external auditor was comfortable with the accuracy of the valuation of the pension fund liability
- The McCloud judgement affected every council in the country. The judgement had implications for the costs to the Pension Fund going forward, the Triennial Valuation and employer contributions
- The financial issues experienced by Northamptonshire County Council had implications for the level of work necessary to establish that a council was a going concern. No issues had been identified with this Council
- The Council had reported a small deficit of £2m for 2018/19 which was considered satisfactory. However the impact pressures of demand-led services was a particular issue for the Council going forward
- The Council was in the bottom quartile for its level of earmarked reserves. This figure was an indication of the Council's financial resilience. Demand-led services were particularly difficult to manage within the budget. It was therefore critical for the Council to effectively manage its budget given the limited options to increase funding. It was not a case of top-slicing budgets but transforming the way services were delivered
- The Council had taken a number of actions to improve its commissioning arrangements including the creation of a Commissioning Board and a central buying team. A deep-dive exercise had been undertaken to identify key risks and lessons learned. It was concluded that clear VFM had been demonstrated

- Audit was under increased scrutiny and as a result extra audit work had been necessary and this had been reflected in the additional audit fee of £13k for 2018/19. In addition, further audit work had been necessary in relation to the assessment of risk associated with Property, Plant and Equipment and the Pension Fund as well as the McCloud judgement. Further work had also been necessary to get the working papers in the correct format
- Work continued in a number of areas although nothing that required reporting to the Committee. New standards had been introduced to the financial instruments this year which had impacted on the compliance of the Council's disclosures in the Accounts. In particular FRS 15 which needed to be amended in order to comply with code. This was a technical issue which had no material impact on the Accounts and an issue experienced nationally. The Council also needed to improve its approach to disclosures in the accounts although the direction of travel was positive
- Pension Fund - There were no material errors in the Pension Fund Accounts. The McCloud judgement had had a financial impact on the Accounts amounting to £24m. This amount was below the level of materiality and therefore there was no need for an adjustment to be made to the Accounts. However, given the financial impact, the Council had decided to make the adjustment and the external auditor was content with this approach
- Pension Fund – In relation to the management override of controls, testing had identified one journal out of nine had not been authorised. However, it was considered the journal was appropriate and no further testing was necessary
- Pension Fund – Sufficient assurance had been provided that the Fund was a going concern
- Pension Fund – Additional fees of £1,500 had been charged for work associated with the McCloud judgement. The total audit fee for the Pension Fund was £20,722
- Pension Fund – Historically the majority of the fee for the work associated with admitted bodies had been absorbed within the audit fee however following a review, a fee of £8,000 would be charged for this work in the future. It was up to the administering authority whether it wished to recharge admitted authorities.

In the ensuing debate the following points were raised:

- The external audit findings were a significant improvement on previous years and were welcomed. In particular, the improvements to the commissioning arrangements would have a positive impact on the way the Council operated in the future. Officers should be congratulated for their efforts
- In response to a query, Peter Barber explained that the additional charge for the work associated with the McCloud judgement would have to be submitted to the Public Sector Audit Appointments for assessment. The Council would only be billed after their assessment
- The reduction in the audit fee reflected well on the work of officers to improve the standard of the working papers submitted to the external auditor. The Committee thanked all Finance staff engaged for their hard work and the improvements made.

RESOLVED: that

- a) **Grant Thornton's Audit Findings Report for the Worcestershire County Council Statutory Accounts 2018/19 and Worcestershire County Council Pension Fund Accounts 2018/19 be noted; and**
- b) **the Chief Financial Officer be authorised to sign the Letters of Representation on behalf of the County Council.**

514 Annual Governance Statement 2018/19 (Agenda item 7)

The Committee considered the Annual Governance Statement 2018/19.

RESOLVED that the Annual Governance Statement 2018/2019 be approved.

515 Annual statutory Financial Statements for the year ended 31 March 2019 (Agenda item 8)

The Committee considered the Annual Statutory Financial Statements for the year ended 31 March 2019.

The Chief Financial Officer introduced the report and highlighted the followings points:

- He thanked the Finance Team and the external auditor for their tireless work in finalising the Accounts. Worcestershire were one of the first councils in the country to finalise their Accounts

- He recommended the Accounts for approval.

In the ensuing debate, the straightforward nature of the accounts was welcomed. There was a considerable reduction in number of explanatory notes in the Accounts compared to previous years. Everyone concerned should be congratulated for their efforts. In response, Michael Hudson, the Chief Financial Officer thanked member of the communications team who had provided advice and guidance in producing the Accounts in an ambitious new format.

RESOLVED that the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2019, be approved.

516 Internal Audit Progress Report - July 2019 (Agenda item 9)

The Committee considered the Internal Audit Progress Report - July 2019.

In the ensuing debate, the following points were raised:

- Michael Hudson, the Chief Financial officer indicated that the internal audit team had been operating under capacity since its transfer in-house. The Plan was being managed and a recruitment drive had been undertaken to bring the unit up to full capacity to ensure the delivery of the Plan
- The positive direction of travel of the work undertaken by the internal audit team to reduce the number of outstanding audits was welcomed.

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

517 Corporate Risk Report (Agenda item 10)

The Committee considered the Corporate Risk Report.

In the ensuing debate, the following points were raised:

- It was queried whether the outcome of a no Brexit deal had been taken into account as part of the Council's risk management arrangements. Rob Morris, the Management Information Analytics and Research Manager indicated that the Director of Commercial and Commissioning attended a Forum on behalf of the Council which was considering the implications of all aspects of Brexit
- Did the Council have risk management plans in place to tackle the impact of major weather events on the ability of the Council to carry out its

**518 Work
Programme
(Agenda item
11)**

functions? The Chief Financial Officer responded that emergency plans were in place for certain events such as flooding. Internal Audit had responsibility for reviewing the effectiveness of those plans.

RESOLVED: that

- a) the latest update of the Corporate Risk Register including mitigating actions identified in respect of red risk be noted; and**
- b) Risk Reports be received on a quarterly basis.**

The Committee considered its future work programme.

In the ensuing debate, it was noted that any suggestions for changes to the work programme should be directed to the Chief Financial Officer.

RESOLVED that the work programme be agreed.

The meeting ended at 11.50am.

Chairman