

Agenda

Audit and Governance Committee

Friday, 20 September 2019, 10.30 am
County Hall, Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
You/your family/person or body with whom you are associated have
a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests** **OR**
relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Audit and Governance Committee

Friday, 20 September 2019, 10.30 am, County Hall, Worcester

Membership: Mr N Desmond (Chairman), Mr R W Banks, Dr A J Hopkins,
Mr L C R Mallett, Mr P Middlebrough, Mr C Rogers, Mrs E B Tucker and
Mrs R Vale

Agenda

Item No	Subject	Page No
1	Apologies and Named Substitutes	
2	Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Head of Legal and Democratic Services in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case, 19 September 2019). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	Confirmation of Minutes To confirm the Minutes of the meeting held on 29 July 2019. (previously circulated)	
5	Internal Audit Progress Report 2019/20	1 - 6
6	External Auditor - Annual Audit Letter	7 - 32
7	Fourth Update on Finance Improvement Plan	33 - 38
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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 11 September 2019

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AUDIT AND GOVERNANCE COMMITTEE

20 SEPTEMBER 2019

INTERNAL AUDIT PROGRESS REPORT

Recommendation

- 1. The Chief Financial Officer recommends that the Internal Audit Progress Report attached as an appendix be noted.**

Background

2. The attached progress report summarises Internal Audit work undertaken from 1 August to date for consideration by the Committee.

Key issues to note

3. It is only just over a month since our last update to Committee, but I am pleased to report that we are making good progress on the audit plan. We have issued a final report for 1 audit, have 1 audit with managers for sign off and 9 audits underway (including 4 IT audits which are being delivered by Worcestershire Internal Audit Shared Service).
4. We have managed to complete a number of older outstanding actions and now have a total of 83 outstanding actions, with 58 overdue. 19 of these relate to Northleigh Primary School and we are working with the new headteacher to manage these.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix – Internal Audit Progress Report

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

Previous update reports to the Audit and Governance Committee



Internal Audit Progress Report

September 2019

Summary of assurance work

2019/20 Plan

The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls.

Final reports have been issued in respect of the following audits:

Information governance – moderate assurance

Draft reports have been issued in respect of the following audits:

Winter service – substantial assurance

The audits currently in progress are:

DAS establishments (cash handling)
DAS appointees and deputies
Schools governor support and training – thematic review
HR strategy and policy development and compliance
Corporate project management
IT inventory
IT systems administration
IT legacy systems
IT Liquid Logic implementation

Summary of non-assurance work

Counter Fraud

The size and complexity of the County Council means that some irregularities are inevitable, and therefore, in addition to planned assurance work, a number of special investigations are needed each year and since the last report the following investigations have commenced:

- Internal Audit have investigated an anonymous whistleblowing allegation that a member of staff in a school had awarded premises contracts to a supplier who had also undertaken private work for the member of staff concerned which was paid for from the delegated school budget. A draft report has been issued and we are in discussion with the Assistant Director of Education and Skills about next steps.
- Internal Audit has been asked to review hours claimed by staff in certain areas of the business. These investigations are ongoing and have uncovered a lack of clarity in some of our policies and inconsistent management action in authorizing claims.

National Fraud Initiative

Internal Audit have issued the results of the matches to the appropriate teams for investigation. The service areas will review the data and assess the matches for further investigation as appropriate. Work is ongoing but to date almost £33k has been recovered as a result of identified matches.

Advice

Internal Audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the period the service has provided an input to various corporate projects and this work is consistently welcomed by managers.

We are currently supporting the transfer of services to Worcestershire Children First, including verification of financial balances and transactions. This work will include sample testing of transactions in September and October to ensure that they relate to the correct organisation.

In addition to the above, Internal Audit continues to:

- attend regular meetings of various corporate groups and provides advice and guidance as required. These include the Corporate Risk Management Group and Corporate Information Governance Group;
- Internal Audit is also attending meetings relating to the Finance Improvement Plan as part of the Communication and Training work stream and the Adults Finance and Change Board.

Audit system implementation update

The implementation of our audit management system, Pentana, is progressing well. We have configured the system to meet our requirements and staff have been trained. We are now undertaking user acceptance testing to ensure that the system delivers all that we need it to. This is planned to be completed by the end of September. The system provides functionality to enable operational managers to engage with the system, allowing monitoring of current audits and the ability to update recommendation progress. We anticipate this will be utilised from April 2020. The system will also enable us to report to Committee in a more interactive way and we are keen to demonstrate this functionality in due course.

Staffing

As has previously been discussed at Committee, we currently have 4 staff in the Internal Audit team and, although we are making significant progress, we are under-resourced in terms of delivering the audit plan and working towards developing the remit of the service. We are currently reviewing the structure and have 2 roles at Grading Panel this month. Recruitment will take place during the autumn.

Performance

We have taken significant steps since we last reported to Committee to review and complete the outstanding recommendations, and now have 83 recommendations open over 23 audits.

Directorate	Audit	Recommendations				
		Not yet due	0-3 months	3-6 months	6-12 months	> 12 months
Adult Services	Transition children to adult	2				
Children's Services	Direct payments - Children					3
	Foster payments	1			1	
Coach	Cyber Security	3	1			
	Councillors divisional funds	2	4			
	Agency staffing			1		
	Contract management		2		1	1
	Data centre security	3			1	
	Procurement		2	1		
	Performance Management		3	1		
	Information governance	7	2			
	IT Access Controls		1			
	IT Software Licensing	2				
Economy & Infrastructure	Information management				3	
	Approval of development			3		
	Design Services				1	
	Worcestershire Local Enterprise Partnership			1		
Schools	Chadsgrove		2			
	Finstall First		3			
	Northleigh Primary				19	
Finance	Accounts receivable	4				
	General Ledger	1				
Pension Fund	Pensions Investment				1	
		18	18	7	27	4

The most significant number of outstanding actions is with Northleigh Primary School where there is a new Headteacher in place who was unaware of the previous audit. We are working with the Head to ensure that he is aware of the recommendations and is comfortable about implementing them.

AUDIT AND GOVERNANCE COMMITTEE

20 SEPTEMBER 2019

EXTERNAL AUDITOR - ANNUAL AUDIT LETTER 2018/19

Recommendation

1. The Chief Financial Officer recommends that:
 - a) The Annual Audit Letter 2018/19 be noted;
 - b) The Committee considers whether it wishes to receive any further reports on information contained in the Letter; and
 - c) The Committee considers whether there are any issues arising from the Letter to draw to the attention of the Council.

Summary

2. Grant Thornton is responsible for producing an Annual Audit Letter which brings together all aspects of external inspection work undertaken across the County Council including the audit work carried out on the accounts. The Annual Audit Letter looks back over the year and summarises all of the reports and work the external auditors have undertaken and closes that years audit. As such there are no new audit findings.

3. Representatives from Grant Thornton will attend the meeting to discuss the findings. A copy of the Letter is attached as an Appendix.

Contact Points

County Council Contact Points
County Council: 01905 763763
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Specific Contact Points for this report
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Supporting Information

- Appendix – The Annual Audit Letter for Worcestershire County Council

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

The Annual Audit Letter for Worcestershire County Council

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Year ended 31 March 2019

August 2019



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- 2. Audit of the Financial Statements
- 3. Value for Money conclusion

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- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Worcestershire County Council (the Council) and the Pension Fund for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 29 July 2019.

Our work

Materiality	<p>We determined materiality for the audit of the Council's financial statements to be 14.533 million which is 1.9% of the Council's gross expenditure.</p> <p>We determined materiality for the audit of the Pension Fund's financial statements to be £27.010 million, which is 1% of the total net assets</p>
Financial Statements opinion	<p>We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 31 July 2019.</p>
Whole of Government Accounts (WGA)	<p>We are currently undertaking our work on the Council's consolidation return following guidance issued by the NAO. The deadline for completion of this work is the 13 September 2019.</p>
Use of statutory powers	<p>We did not identify any matters which required us to exercise our additional statutory powers.</p>
Value for Money arrangements	<p>We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 29 July 2019.</p>
Certificate	<p>We are unable to certify that we have completed the audit of the financial statements of Worcestershire County Council until we have;</p> <ul style="list-style-type: none">• completed our work on the whole of government accounts statements (deadline 13th September 2019), and• given the opinion on the consistency of the pension fund financial statements with the pension fund annual report (deadline 30 November 2019).

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's and Pension Fund's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and Pension Fund's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An audit delivered by the statutory deadline – we delivered the audit by working hard in partnership with your team to tackle the issues identified, particularly those in relation to the valuation of PPE.
- Improved financial processes – we worked with you and feedback on areas where processes could be improved for future years, particularly in respect of disclosures and the treatment of financial instruments.
- Sharing our insight – we provided regular Audit and Governance Committee updates covering best practice. We also shared our thought leadership reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's and Pension Fund financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £14.533 million, and determined materiality for the audit of the Pension Fund financial statements to be £27.010 million.

We also set a lower level of specific materiality for senior officer remuneration at the Council of £100k due to the sensitive nature of these.

We set a lower threshold of £ 0.726 million for the Council and £1.35 million for the Pension Fund, above which we reported errors to the Audit and Governance Committee, as Those Charged with Governance, in our Audit Findings Reports.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report, annual governance statement and Annual Report published alongside the financial statements to check it is consistent with our understanding of the Council and Pension Fund.

We carried out our audits in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council and Pension Fund business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements (Council)

Significant Audit Risks

These are the significant risks which had the greatest impact for auditing the Council and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none">• Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;• Considered the competence, expertise and objectivity of any management experts used;• Reviewed the basis on which the valuation is carried out and challenged the key assumptions;• Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	<p>This was a particular area of difficulty during the audit last year, and as a result there have been communications between the audit team and finance officers throughout the year. Working papers demonstrating officers' assessment in relation to the assets not revalued in year were not available at the start of the audit, the final version of the working papers were provided to the audit team on the 10th July.</p> <p>While our work in this area didn't identify any material issues with the valuation of land and buildings, this remains an areas where the working papers will need to improve in future years.</p> <p>We were satisfied that the value of land and buildings in the financial statements were materially accurate.</p>
<p>Valuation of net pension liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;• Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out;• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and• Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	<p>Our audit work did not identified any issues in respect of the Pension Fund net liability. We have worked with officers of the Council to ensure an appropriate resolution is reached in relation to the McCloud ruling. The Council have obtained a revised actuarial report and made the amendments to the draft financial statements.</p> <p>No further issues were identified in our review of the pension net liability.</p>

Audit of the Financial Statements (Council) - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none">• Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and• evaluated the rationale for any changes in accounting policies or significant unusual transactions.	<p>Our work did not identify any issues in respect of management override of controls to bring to your attention.</p>

Audit of the Financial Statements (Pension Fund)

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy for auditing the Pension Fund and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of level 3 investments</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of Level 3 investments as a risk requiring special audit consideration.</p>	<p>As part of our audit work in this area we have;</p> <ul style="list-style-type: none">• Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls;• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments;• considered the competence, expertise and objectivity of any management experts used;• reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and• for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We have reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period	<p>As part of testing of our classification of investment assets we noted that the Pension Fund initially received the market value report from it's custodian Mellon. On review of the report, the Pension Fund have amended some of the categories that Mellon had assigned to the investments. The audit team have checked the re-classifications and are satisfied that the changes are in line with the evidence received from the Fund Managers. This provides appropriate evidence of challenge by the Pension Fund of the work undertaken by the expert. The Pension Fund have informed the audit team that they are going to raise this issue with Mellon as part of the wash-up session after the accounts to ensure consistency of approach in future years.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>As part of our audit work in this area we have;</p> <ul style="list-style-type: none">• Gained an understanding of the accounting estimates, judgements and decisions made by management and considered their reasonableness,• Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness, and• Evaluated the rationale for any changes in accounting policies or significant unusual transactions.	<p>Our testing of estimates, judgements and journals have not identified any evidence of management override of controls. Our testing of journals did, however, identify one journal out of nine where the journal had not been authorised. While this had not followed the pension fund control procedures we considered the journal to be appropriate and therefore did not extend our testing in this area.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and Pension Fund's financial statements on 31 July 2019.

Preparation of the financial statements

The Council and Pension Fund presented us with draft financial statements in accordance with the agreed timetable of the end of May 2019. There is a clear trajectory of improvement with the working papers from the prior year, however there remain some areas where the clarity of working papers could be improved.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Audit and Governance Committee on 29 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council and Pension Fund.

Whole of Government Accounts (WGA)

We are currently undertaking our work on the WGA submission,, the deadline for this is the 13 September 2019.

Other Statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, or to apply to the Court for a declaration that an item of account is contrary to law. We have not had to use these powers.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Worcestershire County Council due to the following:

- completion of the WGA statement (deadline 13 Septembers 2019)
- Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 30 November 2019).

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

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Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Children's Services</p> <p>Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017. In addition the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities. The outcome of the inspection was to require a written statement of action because of significant weakness in the local area's practice.</p> <p>We will review the progress the Council is making against the recommendations arising from the Ofsted review. This includes the steps that are being taken to establish a wholly owned subsidiary company to deliver children's services.</p>	<p>Since the original 'inadequate' Children's Service inspection in January 2017 the Council have received 7 monitoring visits from Ofsted. This final monitoring visit took place on the 8 and 9 January 2019.</p> <p>Feedback from Ofsted from this visit continued to highlight good progress, with no areas of significant harm identified that had not been responded to by the local authority. There still remained areas for improvement, however, these were largely where processes needed to embed, or where Ofsted had reviewed case files relating to old cases where the recent improvements are not been able to be demonstrated.</p> <p>On the 29 July 2019 Ofsted published the findings from a full reinspection of Children's Services, which took place during June and July. The report recognised that progress had been made in many areas of Children's services. It noted that effective work by senior management and staff, together with commitment and investment by political leader has led to improved responses to the needs of children and families. As a result, outcomes for many children and their families are better, and there is evidence of a sustained trajectory of improvement. All areas were therefore assessed as requires improvement to be good.</p> <p>Ofsted also conducted a joint inspection of provision for children and young people with special educational needs and disabilities in March 2018 to judge the effectiveness of the area in implementing SEND reforms in Worcestershire. As a result of the inspection it was determined that a Written Statement of Action was required because of the significant weakness in the local area's practice. The action plan prepared jointly by the County Council and the CCG was submitted in August 2018.</p> <p>Monitoring has taken place against this action plan and there is evidence of improvements, with the development of a new local offer website where parents, carers and providers can find information about SEND provision and services. There is evidence that this is proving successful with over 500 returning visitors to the webpage. The % of looked after children with up to date health assessments continues to improve and has increased from 59% in May 2018 to 80% in January 2019.</p>	<p>As a result of the improved rating from Ofsted we have concluded that there are appropriate arrangements in place.</p>

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Children's Services</p> <p>Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017. In addition the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities. The outcome of the inspection was to require a written statement of action because of significant weakness in the local area's practice.</p> <p>We will review the progress the Council is making against the recommendations arising from the Ofsted review. This includes the steps that are being taken to establish a wholly owned subsidiary company to deliver children's services.</p>	<p>The department of education and NHS England advisors hold quarterly joint monitoring visits to discuss progress on delivering the SEND action plan. There have been 3 monitoring visits to date, (June 2018, September 2018 and December 2018). They have reported that key pieces of work have begun which should impact positively on outcomes for children and young people.</p> <p>Worcestershire Children First is the new company that will be responsible for delivering services to children and young people across Worcestershire. Services will transfer from the Council to the wholly owned not for profit company on the 1st October 2019. The initial scope of the company has been widened to include education services, SEND and early help, which will enable a sharp focus on the needs of young people. The Company has appointed its Chief Executive and Chairman of the Board in advance of the go live date. Work is ongoing to develop a business plan for the company, as well as developing arrangements for monitoring service delivery</p>	<p>As a result of the improved rating from Ofsted we have concluded that there are appropriate arrangements in place.</p>

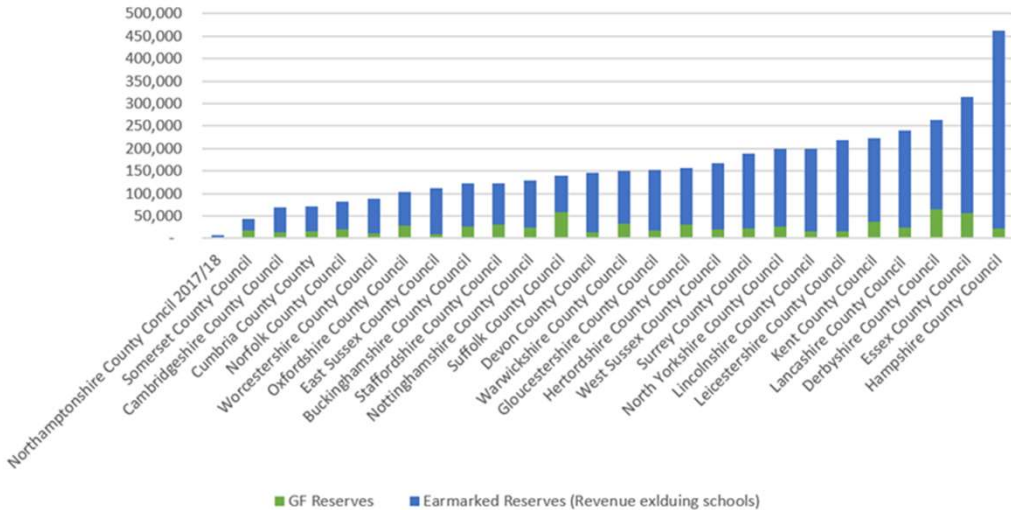
Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability of the Council</p> <p>Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m of savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget.</p> <p>We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<p>Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council have delivered a small deficit of £2m compared to a net budget requirement of £324m. This year end position was only achieved via some swift and decisive management action at period 4, which has enabled an initial predicted overspend of £12m to be managed down to £2m. The Council continues to actively monitor its budget and understand the cost pressures, which continue to be the demand led services for both adults and children.</p> <p>Whilst the final overall outturn was £2m, there were areas of significant overspending in adult services of £12.4m and to a lesser extent children's services of £1m. These overspends have been mitigated by savings in other areas, such as a £4.7m underspend in Economy and Infrastructure and £6.4m in Finance, the latter as a result of reviewing financing transactions. Transformation projects are in place in both Adult and Children's services to mitigate these demand pressures and ensure that spending can be contained within budget in future years.</p> <p>Like many other local authorities, the funding for schools remains a significant challenge, with the DSG overspent by £7.7m in year. This comprises of a £9m overspend for High Needs Block and a £1.2m underspend on other DSG areas. Despite some additional funding and a depletion of prior year reserves the DSG has ended up in a deficit position of £0.6m. The Council recognises that this is not a sustainable position and is an area of concern which it continues to lobby central government about. It is likely that alternative funding in 2019/20 will need to be found to compensate for the magnitude of these overspends in the high needs block.</p> <p>The original savings target included in the 2018/19 budget was £37.4m. This consisted of £31.6m that was planned in 2018/19 and £5.8m of projects that were carried forward from previous years. As part of the review of the budget for the year, it was identified early on that the £5.8m carry over from prior years was unlikely to be achieved, and similarly the original target for 2018/19 was overly ambitious and that £2m would not be achieved. This gave a revised target for savings of £29.5m, of which £27.7m has been achieved.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget. <p>Management response</p> <ul style="list-style-type: none"> The Council will continue to monitor financial risk and resilience on an ongoing basis taking every opportunity to lobby and support central government to implement fair allocations of funding that appropriately recognise Worcestershire's circumstances. To support the 2019/20 budget and Council Tax precept, the Medium Term Financial Plan will be refreshed which will include confirming policy direction and savings/efficiency measures.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability of the Council</p> <p>Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget.</p> <p>We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<p>In addition to the original savings identified in the budget, significant management action was identified as part of the period 4 budget monitoring, which has led to further savings of £10.5m being achieved. The delivery of these savings has ensured that the outturn position has been for only a small deficit in year, which can be contained within the current level of reserves.</p> <p>The s151 officer has assessed the level of reserves as appropriate at the most recent budget setting round. At year end, the general fund balance sits at £12.2m. Excluding this general fund balance the Council also has £81.5m of earmarked reserves. Removing balances relating to schools of £5.6m and a further £11.8m where the reserves could be me used to support spend, gives an earmarked position of £64.1m which could be used to support services if required. This equates to almost three times the level of savings needed in 2019/20 and 19.4% of the budget requirement.</p> <p>Comparing these reserve balances with other county councils draft financial statements, Worcestershire is towards the bottom end of the scale, with only five county councils having lower level of combined general fund and earmarked reserves (when excluding schools). This is demonstrated in the graph overleaf.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget. <p>Management response</p> <ul style="list-style-type: none"> The Council will continue to monitor financial risk and resilience on an ongoing basis taking every opportunity to lobby and support central government to implement fair allocations of funding that appropriately recognise Worcestershire's circumstances. To support the 2019/20 budget and Council Tax precept, the Medium Term Financial Plan will be refreshed which will include confirming policy direction and savings/efficiency measures.

Value for Money conclusion

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<p>Financial Sustainability of the Council</p> <p>Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget.</p> <p>We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<p style="text-align: center;">Level of Reserves- Comparison across County Councils</p>  <p>Like many other similar local authorities, the financial outlook remains challenging with the latest medium term financial plan identifying savings, reforms and income generation of £61m needed between 2019-22. £23m of that would be needed in 2019/20.</p> <p>The budget for 2019/20 was set in February. The process considered the amount of income the Council was likely to receive, as well as considering the additional pressures on expenditure. The pressures of both pay and contract inflation were considered as well as the considerations for demand led growth, and growth for investment purposes. The budget approved significant additions to budgets in adult and children's services to address the levels of overspending that had previously been identified. This was in addition to approved transformation projects in these services aimed at helping to contain expenditure within budget in future years.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget. <p>Management response</p> <ul style="list-style-type: none"> The Council will continue to monitor financial risk and resilience on an ongoing basis taking every opportunity to lobby and support central government to implement fair allocations of funding that appropriately recognise Worcestershire's circumstances. To support the 2019/20 budget and Council Tax precept, the Medium Term Financial Plan will be refreshed which will include confirming policy direction and savings/efficiency measures.

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Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Commissioning arrangements</p> <p>The Council continues to outsource key contracts. Last year's VFM conclusion highlighted that the arrangements around commissioning were inadequate. In particular we highlighted that lessons learned from the implementation of major contracts was not being appropriately disseminated to all officers and that there was a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for users of the services.</p> <p>We will review the progress the Council has made in regard to the risk identified in the prior year.</p>	<p>Following the qualified VFM conclusion and the new senior leadership team in place at the Council, there has been an obvious focus on the need to improve the procurement and commissioning arrangements in place at the Council.</p> <p>The Corporate and Communities Overview and Scrutiny Board have received various reports and updates on commissioning, with the Audit and Governance Committee, also regularly updated on progress.</p> <p>Improved governance is in place, with the following measures being put in place during the year;</p> <ul style="list-style-type: none"> ▪ The introduction of a Commercial and Commissioning Board. The aim of which is to provide a strategic view of commissioning and commissioned services, ▪ The introduction of a category management team, whose purpose is to ensure commerciality is introduced and to identify opportunities for reducing spend, ▪ The introduction of a central buying team, and ▪ The introduction of a greater focus on commercial reporting. <p>We have reviewed minutes of meetings from the board and noted the focus on managing the procurement process, and identifying key risks. A set of actions is produced following the end of each meeting, which are monitored to ensure that all risks are addressed and tasks managed.</p> <p>Where contracts are let, or where decisions have been taken to move services back in house, a lessons learned report has been produced. This is shared as appropriate, in many cases, through the well established star chamber process. This helps ensure that learning points are shared across departments.</p> <p>Commercial reporting is significantly improved, with a dashboard system in place that shows contracts in place, savings and an overall workplan. Officers and members are able to access this, which gives a clear overview of the work that is ongoing within commissioning and procurement.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> • Overall there is clear evidence that the Council has done a large amount of work in this area on the arrangements in place, and there is clear commitment from both senior officers and members to ensure that arrangements are robust and deliver the best value services for the residents of Worcestershire. • Given the nature of these projects and the long lead time, there is no evidence yet that the improved arrangements are delivering improved outcomes, however there is an expectation that the new arrangements would lead to better outcomes in the future. • The Council has appropriate arrangements in place. <p>Management response</p> <ul style="list-style-type: none"> • The Council has continued to strengthen it's arrangements around commissioning and this will remain a key business activity to ensure the appropriate resources are secured to undertake service provision.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Commissioning arrangements</p> <p>The Council continues to outsource key contracts. Last year's VFM conclusion highlighted that the arrangements around commissioning were inadequate. In particular we highlighted that lessons learned from the implementation of major contracts was not being appropriately disseminated to all officers and that there was a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for users of the services.</p> <p>We will review the progress the Council has made in regard to the risk identified in the prior year.</p>	<p>The skills and expertise of the central team have been strengthened during the year, with two qualified officers being appointed. Training is also underway with existing staff to ensure the Council has appropriately trained officers in this field. This will be reviewed based on the Council redesign, to ensure that this function is fit for purpose.</p> <p>The new team have already helped deliver savings that have contributed to the final outturn position for the Council in 2018/19. While it has not been possible to quantify the savings delivered, work on reducing the number of people who have purchasing cards, better management of PO numbers and a focus on essential spending has ensured that the predicted overspend has been managed down to a more acceptable level than initially predicted during the year.</p> <p>The audit team have reviewed two key procurement activities that have taken place during 2018/19 to ascertain whether there is evidence of improved arrangements in place. These projects were the 0-19 Prevention and Early Intervention Service and the replacement of the case management system for Adult and Children's services called Liquid Logic.</p> <p>In both cases, the reports that went to the corporate commissioning board demonstrated a clear understanding of the issues and risks associated with the procurement. Lessons learned around previous system procurement had been acted on, and where appropriate decisions were taken to delay implementation to ensure that the service was provided in a way that would be most appropriate for service users.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> Overall there is clear evidence that the Council has done a large amount of work in this area on the arrangements in place, and there is clear commitment from both senior officers and members to ensure that arrangements are robust and deliver the best value services for the residents of Worcestershire. Given the nature of these projects and the long lead time, there is no evidence yet that the improved arrangements are delivering improved outcomes, however there is an expectation that the new arrangements would lead to better outcomes in the future. The Council has appropriate arrangements in place. <p>Management response</p> <ul style="list-style-type: none"> The Council has continued to strengthen it's arrangements around commissioning and this will remain a key business activity to ensure the appropriate resources are secured to undertake service provision.

A. Fees - Council

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	June-July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	June-July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Overruns as a result of the need to test additional sample items and additional queries on key working papers.	March and June 2019	As highlighted previously, given the nature of the output from the financial system, we have had to undertake additional substantive testing on balances compared to the level anticipated within the fixed fee. Key working papers, particularly on assets not revalued in year were not available at the start of the audit, and the audit team have taken additional time to work with officers to ensure that the accounts are not materially misstated.	4,450

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	95,446	73,493	73,493
Additional Audit Fee (see above)	28,185		13,450
Total audit fees (excl VAT)	123,631	73,493	86,943

Non Audit Fees

Fees for other services	Fees
Audit related services:	£4,200
• Certification of teachers' pension return	
Non-audit services	
• CFO Insights	£12,500
	£16,700

A. Fees – Pension Fund

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £19,222. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500

Total Audit Fees

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
Pension Fund Audit	24,963	19,222	19,222
Additional Audit Fees (see above)	5,200		1,500
Total audit fees (excluding VAT)	30,163	19,222	20,722

A. Audit Related Services Fees – Pension Fund

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit.

Audit related	£	Description
<p>IAS 19 assurance letters to other auditors</p> <p>In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of ten other local authorities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officers has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.</p>	£8,000	<p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>Historically the majority of the cost of this work has been absorbed within the audit fee of the administering and admitted bodies (last year we charged the Pension Fund £1,193 for this work). Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Worcestershire Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19 IAS 19 letters of assurance were provided to the following admitted bodies of Worcestershire Pension Fund.:</p> <ul style="list-style-type: none">• Worcestershire County Council• Worcester City Council• Wychavon Council• Wyre Forest District Council• Malvern Hills District Council• Hereford and Worcester Fire and Rescue Authority• Redditch Borough Council• Bromsgrove District Council• West Mercia Police• Herefordshire Council <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.</p>

A. Reports issued

We confirm below our final reports issued

Reports issued

Report	Date issued
Audit Plan (Council & Pension Fund)	December 2018
Audit Findings Report (Council & Pension Fund)	July 2019
Annual Audit Letter (Council & Pension Fund)	August 2019



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AUDIT AND GOVERNANCE COMMITTEE

20 SEPTEMBER 2019

FOURTH UPDATE ON FINANCE IMPROVEMENT PROGRAMME (FIP)

Recommendations

- 1. The Chief Finance Officer recommends that the report be noted and a further update be brought to the March Committee meeting.**

Background

2. The Committee discussed the external audit (Grant Thornton) Annual Reports and improvements being made in Finance at its meetings in September and December 2018; and March 2019. Appendix 1 is a reminder of the Programme.
3. This report updates the Committee on progress on this improvement programme.

Management action to date

4. To ensure that the Council has a fit for purpose finance function to support the organisation in the coming years an Improvement Programme is in place with six individual projects and two cross cutting projects. Progress on each area since the last Audit and Governance Committee is set out below:

- i. **Control environment –**

- The 2018/19 Statement of Accounts were signed off unqualified and on time. In doing so Grant Thornton, our external auditors recognised significant improvement in our control environment.
- Further process and governance improvements will be rolled out during the next two quarters, including:
 - Financial Regulations signed off by SLT – November 2019
 - Core Financial Competencies signed off by SLT – November 2019
 - Further Collaborative Planning and budget Training – Quarters 3 and 4
 - Use of Collaborative Planning by all budget holders –by start of quarter 1 2020

- ii. **Budget Structures and roles and responsibilities:**

- The cost centre *hierarchy review project* was completed and uploaded for the start of 2019/20. This resulted in a 39% reduction in cost centres (service budget). Further work has been ongoing to carry out a similar exercise to reduce the number of sub-nominals or subjective codes that record the types of spend, for example pay, non-pay and income. There were over 1,000 different codes and this also gave rise to incorrect postings. This work is due to complete at the end of September and the expected outcome is that approximately 30% of codes will be scheduled for deletion. This should result in less failure demand driven work such as journals and virements and should result in quicker and more trusted budget reporting.
- Work is ongoing alongside the Council's overall redesign work to assign budget responsibilities to managers with a view to further reducing the number of budget holders. Going forward this part of the programme will link to other aspects of redesign:
 - Reduce budget holders / simplify budget allocations' – January 2020 to feed into 2020/21 budget setting
 - Centralise budgets, such as property, stationery and training – commencing in November 2019 to be fully implemented for the 2020/21 budget
 - SRDs include Financial Accountability, Responsibility tasks & competence – March 2020.

iii. **Financial Transactions:**

- The Appointees and Deputies team safeguard vulnerable adults who are receiving a service from the Council and who are assessed at being at risk of financial abuse, or who suffer from a mental impairment and are unable to manage their finances. The Team have been accredited by the Office of Public Guardian and as a result are now the Provider of Choice to act as an Appointee or Deputy for the financial affairs of clients who lack capacity to manage their own finances.
- A review of bad debt recovered nearly £4m from a four week chase of debt. The level of debt is now reported monthly to SLT and is included in the Cabinet report. A centralised income and debt management team is being set up as part of the redesign work.
- Also going forward as part of the redesign the processes and controls over procure to pay are being centralised. The Council will work with Liberata to identify changes required in processes to secure further efficiencies. This will be an 18 to 24 month programme and will touch all areas of the Council.

iv. **Staffing structures:**

- The Chief Internal Audit post was recruited to internally, and Jenni Morris started the role formally at the start of August. Jenni is currently working on a new structure and recruitment process.

- The Senior Finance Management Structure was completed and graded in May 2019 and interviews held in July and August 2019 following advert. All seven posts have been filled, one internally, two who had been working with us on a temporary basis and four from external candidates.
- All vacant posts have now been deleted and all of the proposed savings for 2019/20 are on track to be delivered.

v. **Systems:**

- We have recruited to a Financial Systems and Control Manager post and are currently completing recruitment to a new team that will lead the development and management of E5 (the Council's General Ledger) going forward.
- Work is ongoing to integrate the new social care system (LiquidLogic), including the billing and payments module (Controcc). This is due for implementation in late October / November 2019.
- We have set up a new ledger for Worcestershire Children's First (WCF) with our partners, Liberata and Advanced. The system is due to go live on 1st October. Parallel testing has been ongoing successfully and there are no anticipated issues to report.
- A review of ownership of E5 licences and contract with the system owners (Advanced) is being undertaken to consider early transfer back to the Council from Liberata. This will allow greater opportunity for the Council to drive changes and improve reporting.

vi. **Partners and customers:**

- We are in discussion with Liberata regarding the current contract and key performance measures. We are undertaking joint systems thinking reviews of processes to identify further efficiencies and where processes need strengthening.

5. Underpinning these are two cross cutting projects

i. **Communications:**

- We have continued to work with services regarding user feedback and to keep budget holders informed of changes.
- Regular FIP Newsletters have been provided to services and finance staff, as well as an improved finance internal web presence

ii. **Training:**

- We completed training workshops on how to use the Council's budget monitoring tool 'collaborative planning, involving over 110 budget and spend managers.

- Nine lunch and learn sessions have been held already this financial year for the Finance team, looking at a wide range of issues from using pivot tables to expected behaviours.
 - Finance awareness training has been set up for all budget managers across the council, which started during Quarter 2 with Adults and Public Health. Dates are scheduled during the remainder of Quarter 3 for E&I and COACH.
6. The Programme is being monitored by a Strategic and Operational Programme Board in accordance with the Council's Project Management processes. The latest highlight report notes no red issues.

Legal, Financial and HR Implications

7. There will be a cost associated with resourcing the Programme. At present this is being managed within the existing Finance service budget by reallocating and realigning individuals within the current team. In 2019 that is likely to be supplemented by specific resources for specific tasks, for example the use of Advanced (owners of E5) for system enhancements and training. This should be offset by recurring savings generated from efficiencies arising from the Programme, and as such the Programme is seen as an efficiency programme.

8. In addition, it is envisaged that the Financial and Procurement Regulations will need updating. This will be undertaken in accordance with the Council's constitutional provisions for updates that include and requires councillors' input.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix 1 – Finance Improvement Programme Overview diagram.

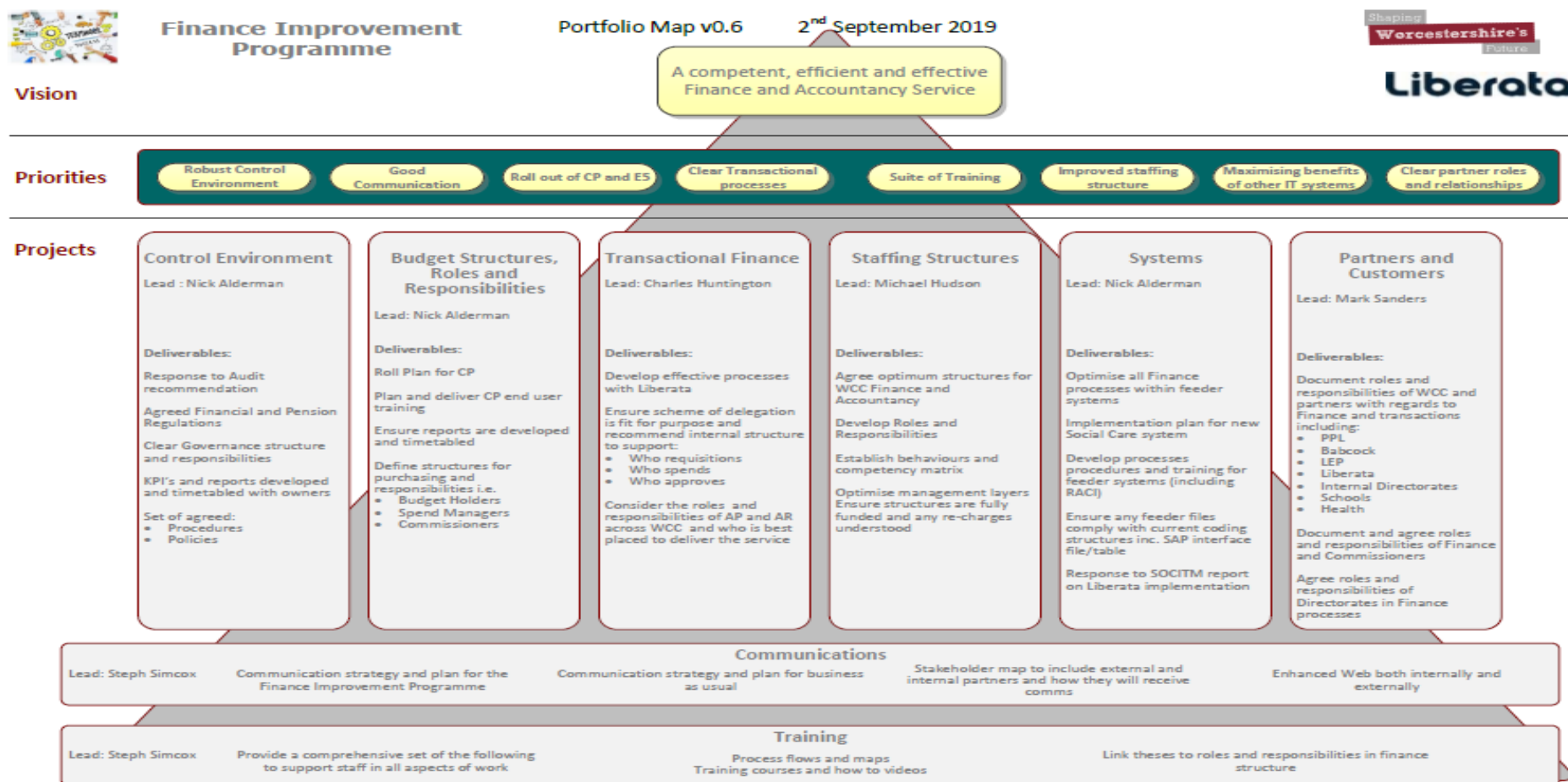
Background Papers

In the opinion of the proper officer (in this case the Director of Commercial and Change) the following are the background papers relating to the subject matter of this report:

External and Internal Audit Reports presented to the Audit and Governance Committee 26 July 2018.

Audit Committee papers presented on the Programme at the September and December 2018, and March 2019 Audit and Governance Committees.

Finance Improvement Programme Overview diagram.



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AUDIT AND GOVERNANCE COMMITTEE

20 SEPTEMBER 2019

CORPORATE RISK REPORT

Recommendation

- 1. The Committee is requested to note the latest update of the Corporate Risk Register (Appendix) including mitigating actions identified in respect of red risks.**

Background

2. The Corporate Risk Register provides a mechanism for collating and reporting risks that could affect the delivery of corporate objectives. In April 2017 the Council adopted an electronic risk register tool to hold in one place all the major risks identified by individual Directorates and major projects. A scoring system is used to rate individual risks. This allows risks to be ranked and provides a view of the highest risks identified across the organisation.

3. The Council's approach to risk monitoring and risk management continues to develop, and over the next 12 months the Corporate Risk Management Group (CRMG) will review the system and reporting requirements for risk management (including, for example, an assessment of the suitability of Pentana, the Council's new internal audit system, as a potential replacement for the corporate risk register tool). In the last 12 months, CRMG has implemented the following changes:

- a) Reviewed the data quality of the corporate risk register (removing duplicate or obsolete risks) and reduced the number of risks on the register from 187 in 2018/19 to 124 at the end of quarter one 2019/20;
- b) Updated the Terms of Reference to include the Transformation and Performance Board as a governing board and increasing CRMG membership to include cross-cutting support service areas;
- c) Developed a monthly risk dashboard and a monthly report for SLT and Transformation and Performance board; and
- d) Increased reporting of risk to Cabinet and Audit and Governance Committee to once per quarter from 2019/20 (previously once every six months).

4. At the end of Quarter One 2019/20 there were 124 individual risks entered in the risk register of which 15 were identified as high / "red" risks.

5. The Appendix provides an overview of risks identified at the end of Quarter One 2019/20, and more detail about the highest risks. Individual risks have been grouped for the purposes of reporting here. The highest risks have been grouped into five risk areas, following discussion by the Corporate Risk Management Group (CRMG) and

the Performance and Transformation Board, and are included below with a brief summary of mitigating activity:

- a) **Safeguarding vulnerable children** – delivery of the service improvement plan for Children's Social Care and the implementation of Worcestershire Children's First. Dedicated team to support implementation of new social care case management system.
- b) **Education** – review of schools with budget deficits, agreement and implementation of the Special Educational Needs and Disability (SEND) Improvement Plan, supporting schools to the propose of any school organisation change
- c) **Demand for Adult Social Care** – roll out of the Three Conversations model by Adult Social Care, monitoring of care market and workforce availability to identify areas of risk, monthly monitoring of service and directorate budgets
- d) **Compliance management of the council's estate** – capital investment of £1m agreed to carry out survey, assessment and remedial works, all risk assessments and surveys for asbestos, fire and water carried out and up to date for 2018/19
- e) **Business continuity response to major event** – business continuity portal (part of Resilience Direct) established and updated with all critical business continuity plans. Review of critical service business continuity plans underway and a review of the corporate business continuity plan agreed for spring 2020 including a planned exercise to test key elements. Agreement with NHS England for supply of face masks for front line workers in the event of pandemic. New responsibilities for councils to plan for no-deal EU exit scenario.

Two further risk areas that have previously been reported as high / "red" are highlighted as medium / "amber" following significant mitigating activity during 2018/19:

- f) **Financial control** – program of rapid cost saving measures delivered in 2018/19 significantly reduced overspend projected mid-year, review of reserves and financial standing undertaken by Director of Finance, new financial and budget monitoring system ready for roll out in 2019/20, rationalisation of cost codes to simplify budget monitoring and promote further accountability, commercial review of contract review, tail-spend and payment terms initiated. Overspend at end of 2018/19 was approximately £2m (compared with the 2018/19 mid-year projected overspend of over £15m).
- g) **Staff capacity, capability and productivity** – dedicated social work recruitment team for children's and adult social care, organisational redesign underway including staff engagement around performance and productivity. Permanent staffing in social work posts was at a high of 83% at the end of 2018/19 (compared with 59% in February 2018).

6. The Appendix provides more detail about these risks and details of the steps in place to mitigate them.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Rob Morris (Management Information, Analytics and Research Manager)

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Supporting Information

- Appendix – Corporate Risk Update

Background Papers

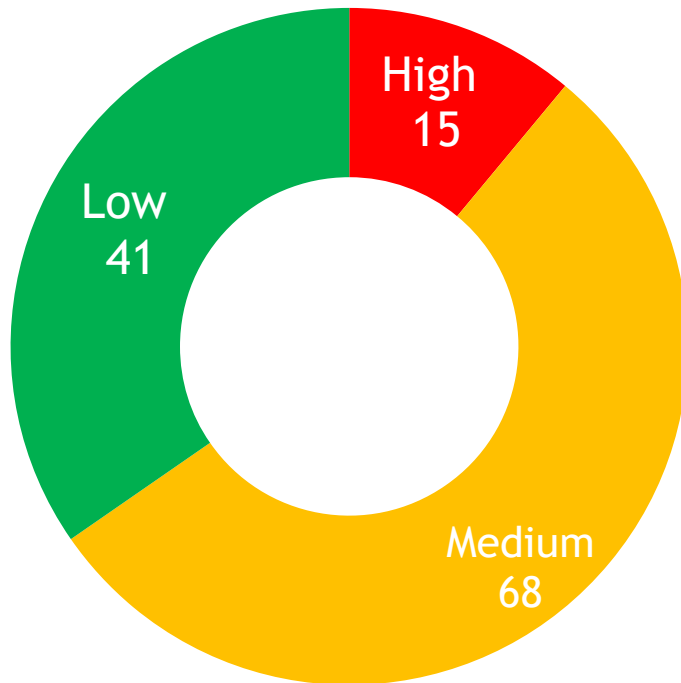
In the opinion of the proper officer (in this case the Management Information, Analytics and Research Manager) the following are the background papers relating to the subject matter of this report:

WCC Corporate Risk Register

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PROFILE OF CORPORATE RISK REGISTER

The Council's Risk Register provides an overview of all major risks across the organisation. The chart below gives a snapshot as at the end of Quarter One - 2019/20. There are 124 risks, of which 15 are scored by directorates as high.



High Risks by Directorate

Children, Families and Communities	5
Adult Services	4
Public Health	2
Economy and Infrastructure	3
Chief Executive	1

CORPORATE RISK AREAS

IDENTIFYING CORPORATE RISKS

- Corporate risk areas are identified by
 - Aggregating similar themes of risk present across multiple directorates in the risk register
 - Identifying specific risks at directorate level that have potential to impact on the wider council
 - Identifying specific risks at directorate level that could be mitigated by actions in other directorates
- The following pages show the current corporate risk areas
 - Vulnerable children
 - Education
 - Demand for adult social care
 - Management of the county estate
 - Business continuity response to major event
 - Financial control
 - Staffing

CORPORATE RISK AREAS

FAILURE TO SAFEGUARD VULNERABLE CHILDREN

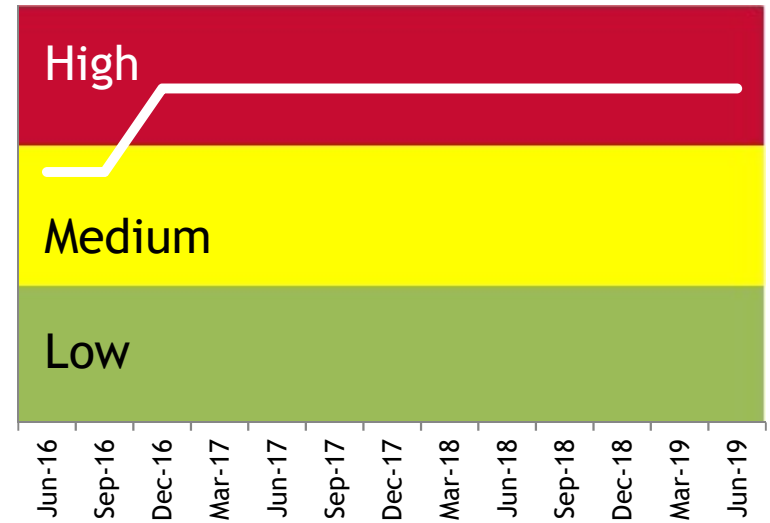
Q1 2019/20

WHY IS THIS AREA OF RISK RED?

- This area of risk is rated Red primarily due to issues identified around safeguarding children which are being addressed by the Council's Service Improvement Plan

MITIGATING ACTIONS

- Accommodation for Care leavers priority of Worcestershire Partnership Board (WPB), led by Lead Member and supported by District Councils.
- Supply of placements for Children in care priority of Service Improvement Plan.
- Transition plan in place to oversee the implementation of the new case management system.



WHAT NEXT?

Implementation of Worcestershire Children's First.

CORPORATE RISK AREAS

FAILURE TO PROVIDE A GOOD EDUCATION FOR ALL WORCESTERSHIRE CHILDREN

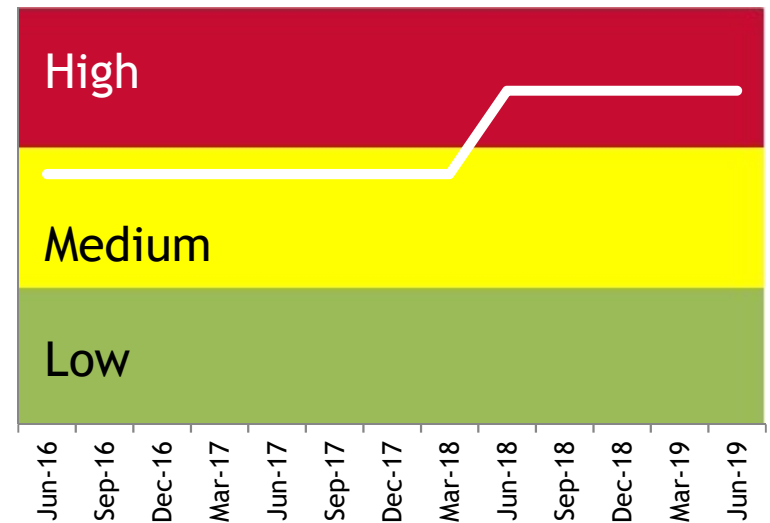
Q1 2019/20

WHY IS THIS AREA OF RISK RED?

- This area of risk is rated as red due to financial pressures on schools, changes to school organisation, and OFSTED / CQC letter outlining areas for improvement for children with SEND.

MITIGATING ACTIONS

- Effective communication of our policy on supporting middle schools to the proposer of any changes to school organisation.
- To work with the Regional School Commissioner to ensure they are aware of our policy.
- Schools with significant deficit budgets to undergo a whole school review led by Assistant Director Education and Skills.
- SEND Improvement Action Plan has been agreed and Improvement Board established. There are five workstreams including
 - The local offer
 - Embedding the graduated response
 - Assessment and planning
 - Joint commissioning and leadership
 - Workforce and engagement



WHAT NEXT?

Implementation of Worcestershire Children's First.

Delivery of the SEND Improvement Action Plan

CORPORATE RISK AREAS

FAILURE TO MITIGATE DEMAND FOR ADULT SOCIAL CARE

Q1 2019/20

WHY IS THIS AREA OF RISK RED?

- This area of risk is rated Red due to the challenges of an ageing population and increasing numbers of people with severe levels of disability, delays in hospital discharges, lack of affordable capacity in residential and nursing homes in Worcestershire, and resulting pressures on services

High

Medium

Low

Jun-16 Sep-16 Dec-16 Mar-17 Jun-17 Sep-17 Dec-17 Mar-18 Jun-18 Sep-18 Dec-18 Mar-19 Jun-19

MITIGATING ACTIONS

- The Three Conversations Model introduced by Adult Social Care has been rolled out across all Area Social Work teams Learning Disability and Mental Health services to maximise the potential for prevention and delay of care packages.
- Use of block contracts for residential/nursing care is being monitored closely with outcomes used to inform future commissioning. Financial status of care home providers is being reviewed to identify high risk areas. Workforce availability is being monitored.
- Monthly monitoring of service and directorate budgets at DAS DLT, and reporting of integrated and pooled budget arrangements to ICEOG on monthly basis.
- Additional government funding received for winter pressures
- 2019/20 budget approved with significant growth element

WHAT NEXT?

- Continuing work with NHS partners to support acute and community hospitals.
- Working with Peopletoo to improve effectiveness of reablement and intermediate care to reduce demand.
- Develop business plan for Assistive technology.

CORPORATE RISK AREAS

INADEQUATE FINANCIAL CONTROL

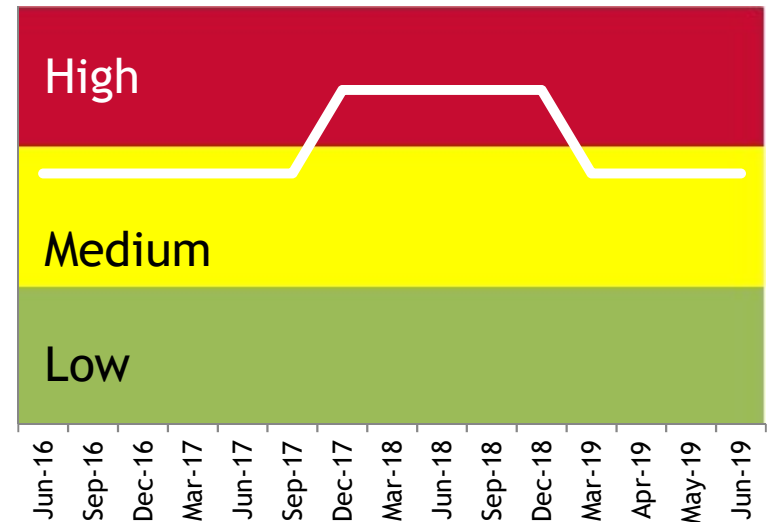
Q1 2019/20

WHY IS THIS AREA OF RISK AMBER?

- Rapid cost saving measures in 2019/20 have reduced overspend and the council's budget monitoring system is being rolled out. There remains significant risk to adequate control around spend and the ability of the council to meet the challenge of budget pressures.

MITIGATING ACTIONS

- A review of reserves and financial standing has been undertaken by the Director of Finance and will continue to be reviewed.
- The Council's new financial and budget monitoring system has been piloted across WCC and supported by finance officers, ready for roll out in 2019/20.
- Regular monitoring reports brought to Cabinet during 2018/19, with recommendations for actions to address any forecasts as appropriate.
- Programme of significant and rapid cost saving measures (just do its) delivered, including Christmas Leave, vacancy management, closing graduate and apprentice programme, VR programme. Significant reduction in overspend compared with projected mid year figure.
- Commercial programme of contract reviews, tailspend review (inc p-card review) and payment terms initiated.
- Review and rationalizing of cost codes to ensure accountability and simplify budget management for budget holders.
- Budget agreed at full council in February 2019.



WHAT NEXT?

Roll out of Finance Improvement Programme is underway to strengthen controls and skills.

CORPORATE RISK AREAS

INSUFFICIENT STAFF CAPACITY, CAPABILITY AND PRODUCTIVITY

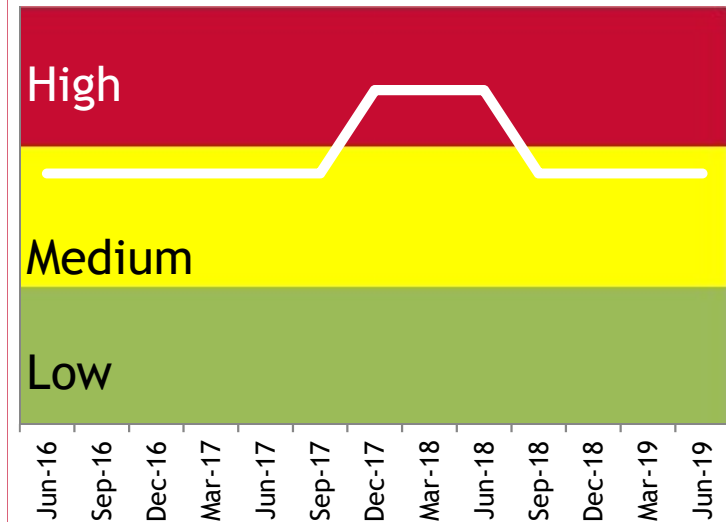
Q1 2019/20

WHY IS THIS AREA OF RISK AMBER?

Improvements in recruitment in key positions (social care/workers) have reduced this risk but threat to staff satisfaction, productivity, and ultimately retention of appropriate skills due to 35 hour / 37 hour week and uncertainty around finances.

MITIGATING ACTIONS

- A dedicated social work recruitment team, based in the Council, is in place. It covers both adult and children's social work and other adult social care posts. Initiatives have included working with operational services to recruit at job fairs and target newly qualified workers.
 - Permanent staffing now 87% (social care) and 85% (social workers) as at July 2019
 - 70 new starters in frontline safeguarding teams in last 12 months
 - Social worker turnover is at 15% (slightly higher than the low of 11% in October 2018) but 24% lower than 12 months ago.
- A new campaign to replace the "Leave the Bid City behind" campaign will be launched in late Autumn 2019 to continue to prompt living and working in Worcestershire, and making use of social media to raise the profile of the County.
- Recruitment Services transferred back to the Council from the provider from 1 August 2019.
- Business continuity plans identify the steps that will be taken to maintain critical services when there are staffing shortages.
- Organisational redesign will include significant staff engagement around performance and productivity including Total Reward.



WHAT NEXT?

- Review the approach being taken to key "hotspots" where recruitment and retention are particularly difficult
- Corporate business continuity strategy to be updated to include consideration of skills and capacity in critical services.

CORPORATE RISK AREAS

INSUFFICIENT COMPLIANCE MANAGEMENT OF COUNCIL ESTATE

Q1 2019/20

WHY IS THIS AREA OF RISK RED?

This area of risk is rated RED due to an ageing estate and ongoing maintenance programme requiring continuous focus to ensure the estate is and remains compliant. Gaps have been identified which are now in the progress of being addressed.

MITIGATING ACTIONS

- A programme of work has now been identified by PPL to address current gaps.
- A capital investment of circa £1m has been instructed to carryout risk assessment, survey and remedial works. Remedial works from surveys and assessments determined and programme of works for 2019-20 agreed by SLT.
- A working group has been set up to over see the works which is currently meeting fortnightly to assess progress and expenditure
- All fire remedial works have now been costed by PPL. SLT have approved the funding to carryout the required works identified from the fire risk assessments. Works are intended to be completed by the end of 2019.
- All schools surveyed. High risk asbestos removed, management and removal of residual asbestos ongoing. Education skills and funding agency (ESFA) asbestos mapping assurance process (AMAP) survey has been conducted (majority of noncompliance is down to management issues being dealt with - e.g. training).
- All surveys and assessments (asbestos, fire and water) for corporate buildings up-to-date and a future program of works (2019-2024) being developed.
- Compliance activity being expanded to cover electricity, gas and confined spaces - additional compliance areas will be added progressively.
- Compliance in schools being investigated - data gathering is complicated due to the self-autonomy of schools.

High

Medium

Low

Jun-16 Sep-16 Dec-16 Mar-17 Jun-17 Sep-17 Dec-17 Mar-18 Jun-18 Sep-18 Dec-18 Mar-19 Jun-19

WHAT NEXT?

- Continuous focus will be maintained to ensure compliance is maintained
- Further works will be identified and added to the 19/20 capital works programme
- Improved reporting model will be implemented
- Increased focus on detailed compliance requirements
- Budget for future compliance works being developed

CORPORATE RISK AREAS

BUSINESS CONTINUITY RESPONSE TO MAJOR EVENT

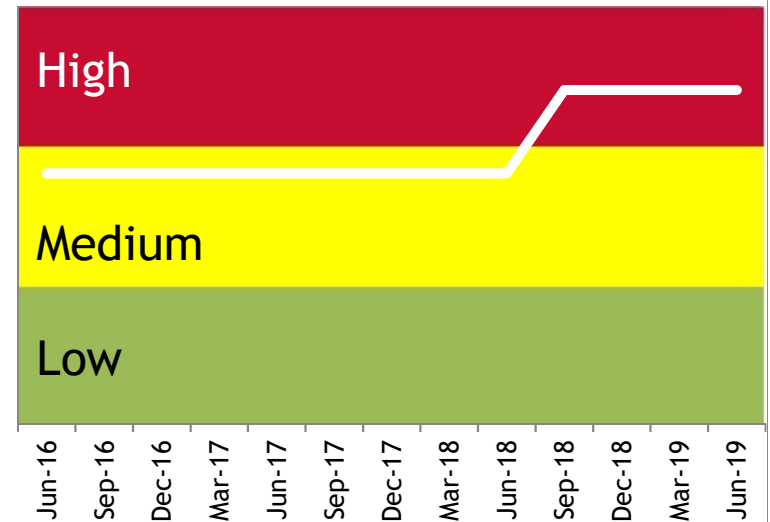
Q1 2019/20

WHY IS THIS AREA OF RISK RED?

- The ability of the council to appropriately deliver against business continuity plans as the organisation shrinks in size. In particular - the council's resilience to loss of staff or unanticipated increase in demand resulting from flooding, accident, pandemic, terrorist activity, Brexit or system loss.

MITIGATING ACTIONS

- Council wide business critical services are defined and BCPs reviewed annually by the CRMG on behalf of the Performance Board.
- The County Council's response to a flu pandemic will be governed through its business continuity arrangements and through making key contributions to a multi agency response.
- Communications for winter weather event delivered (including lessons learnt from last year)
 - Advice on travel
 - Use of remote working
- Social care case management system - major project to deliver the transition from Fwi to Liquid Logic.
- Agreement with NHS England for the supply of PPE (face masks) for front line staff during pandemic.
- Business continuity plan (BCP) hub established on Resilience Direct for off-site storage of critical business continuity plans.



WHAT NEXT?

- Critical BCPs to be reviewed (stored on Resilience Direct) to identify areas without sufficient resilience to significant staff losses, or increased demand.
- WCC PH EP delivered a Pan Flu scenario BCP exercise to Worcester City Council in March 19. A WCC pan flu ex of its own BC arrangements is under development.
- Review of Worcs annex of the Excess Deaths Plan during 2019 to clarify and agree body storage/management responsibilities and arrangements between County and District Councils
- Review of WCC Pandemic Flu framework document during 2019/20.
- New council responsibilities for EU exit preparations

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AUDIT AND GOVERNANCE COMMITTEE

20 SEPTEMBER 2019

WORK PROGRAMME

Recommendation

- 1. The Committee is asked to note its future work programme and consider whether there are any matters it would wish to be incorporated.**

Work Programme

13 December 2019

(preceded by a training session for Committee members only at 9.30am)

Internal Audit Progress Report 2019/20

Counter Fraud Report 2018/19

Corporate Risk Report

13 March 2020

Internal Audit Progress Report 2019/20

Internal Audit Plan 2020/21

External Auditor Plan – Informing the Audit Risk Assessment

Financial Resilience

Corporate Risk Report

30 July 2020

Internal Audit Annual Report 2019/20

External Audit – Audit Findings Report

Annual Governance Statement

Annual Statutory Financial Statements for the year ending 31 March 2020

Internal Audit Progress Report 2020/21

Corporate Risk Report

2 October 2020

Internal Audit Progress Report 2020/21

External Auditor – Annual Audit Letter

Corporate Risk Report

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Simon Lewis, Committee Officer

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Email: slewis@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Director of Commercial and Change) the following are the background papers relating to the subject matter of this report:

Agenda and Minutes of this Committee from December 2005 onwards