

COUNCIL
13 SEPTEMBER 2018**REPORTS OF COMMITTEES - SUMMARY OF DECISIONS
TAKEN BY THE AUDIT AND GOVERNANCE COMMITTEE**

Internal Audit Annual Report 2017-18

1. Internal Audit is required by professional standards to provide a written annual report. The content of the report is prescribed by mandatory codes of practice which specifically require the report to provide an opinion on the overall adequacy and effectiveness of the Authority's governance, risk and control framework.
2. Based on the results of work undertaken during the year, the opinion was that the Authority's control environment provided moderate assurance that the significant risks facing the Authority are addressed. This was similar to 2016/17.
3. The Committee has endorsed the Internal Audit Annual Report 2017/18.

External Audit – Audit Findings Report

4. John Gregory, Director and Helen Lillington, Audit Manager from Grant Thornton, the Council's external auditor, presented the External Audit – Findings Report for the Worcestershire County Council Statutory Accounts 2017/18 and Worcestershire County Council Pension Fund Accounts 2017/18. The report summarises the conclusions and key issues arising from the recent audit of the Council's financial statements and their assessment of the Council's arrangements to secure value for money in its use of resources. It also summarises the conclusions and key issues arising from the recent audit of the Pension Fund's financial statements.
5. The key issues in relation to Worcestershire County Council Statutory Accounts 2017/18 were:
 - Grant Thornton anticipated issuing an unqualified audit opinion, subject to outstanding queries being resolved.
 - Grant Thornton had concluded that, except for the matters identified in respect of Children's Services and Commissioning, the Council had proper arrangements in all significant respects.
 - Grant Thornton identified three misstatement audit adjustments to the draft financial statements, two of which relate to year-end adjustments and the third is a re-categorisation from long term creditors to provisions. They also identified misclassification and disclosure changes required in a number of areas. They have all been adjusted by the Council.

6. The key issues in relation to Worcestershire County Council Pension Fund Accounts 2017/18 were:

- Grant Thornton anticipated issuing an unqualified audit opinion, subject to outstanding queries being resolved.
- Grant Thornton identified a number of misclassification and disclosure changes. They have all been adjusted.

7. During consideration of this report it was acknowledged that County Council officers had shown commitment to finalising the accounts whilst dealing with challenging circumstances, including the early statutory deadline. Updates to the report circulated at the meeting showed that nearly all outstanding issues set out when the agenda was published for the meeting had been resolved. The Committee noted the External Audit findings report, and in addition:

- delegated authority to the Chief Financial Officer in consultation with the Chairman of the Committee to make any residual comments on the Accounts as appropriate following the conclusion of any outstanding external audit work, and
- authorised the Chief Financial Officer to sign the Letters of Representation on behalf of the County Council.

Annual Governance Statement 2017-18

8. The Council is required, as part of its ongoing review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2017/18. This has been signed by the Leader of the Council and Chief Executive. The AGS forms part of the Annual Statement of Accounts.

9. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2017/18 and takes into account any significant issues of governance up to the date of publication of the Statement of Accounts. The AGS outlines the actions taken or proposed to address governance issues identified.

10. The AGS includes the following governance issues as areas for improvement. Items which were included in the 2016/17 AGS and remain governance issues following review in 2017/18: Sustainable improvement in Children's Services; Migration of Human Resources and Finance Systems; and ensuring the delivery of the Council's vision and corporate objectives, in line with the Medium Term Finance Plan. The following new issues have been identified as part of the 2017/18 review process: Sustainable improvement in Children's Services; Adult Social Care Operational Pressures; and Staff capacity, recruitment and retention.

11. Grant Thornton, the Council's external auditors, have considered the AGS as part of their external audit, and have confirmed that it is consistent with their knowledge of our organisation and the financial statements. The Committee has approved the AGS 2017/2018.

Annual Statutory Financial Statements for the year ended 31 March 2018

12. The financial position reported in the Council's Statutory Accounts for 2017/18 was a small surplus of £0.188 million against the net budget of £324 million, with an accounting surplus, which includes adjustments of £50.5 million, for pension's actuarial costs, capital costs and other financial adjustments, of £64.4 million. The County Council's General Fund reserve balance has increased by £0.2 million to £12.2 million, whilst there has been a decrease of £14.1 million on available earmarked reserves taking their balance at 31 March 2018 to £84.4 million.

13. The value of the Pension Fund's net assets increased by £220.1 million from £2,480.9 million at 31 March 2017 to £2,701.0 million at 31 March 2018. During the year a surplus resulted on the Pension Fund accounts totalling £114.8 million, an increase of £80.4 million from a surplus of £34.4 million in the previous year.

14. The external audit identified a number of corrections which were agreed and completed; none of these were material or require any changes to the key statements. There have been improvements in the quality of the working papers in general, although we have experienced some issues with how we report from the e5 financial system and the quality of some source documentation. Areas for improvement have been identified, along with related training and development opportunities.

15. The Value for Money assessment has concluded that the Council has proper arrangements in all significant areas, leading to a qualified "except for" conclusion in our arrangements securing economy, efficiency and effectiveness by the external auditors, with the Children's Ofsted inspection assessment and our commissioning processes as the "except for" items. Recommendations for improvement have been made by the external auditors and this will be considered alongside existing plans.

16. The Committee has approved the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2018

HR/Finance Systems Implementation – Update

17. At its meeting on 16 March, the Committee requested a further report to include: summary details including categorisation of any under/overpayments since go live; the number and type of wider issues (including complaints) raised by Council and School employees to understand the proportionality of the issues experienced; and a copy of the report provided to the external auditor. Gerwyn Baker (Director) and Sian Roberts (Contract Director) from Liberata attended the meeting for this item.

18. There were many lessons to be learned from the implementation of the new HR/Finance system. The actual go live issues were disappointing but quickly managed, albeit with significant divergence of resources on all sides.

19. Lessons are to be learnt regarding ensuring if such events were to occur again further capacity is needed to explain and provide information to councillors and others to provide assurance and openness of the issues and how they are being resolved. Learning points from the independent review were reported to the last Committee meeting and there are key improvement activities taking place to develop approaches to future commissioning.

20. The improvement board and the contract management board actively manage the contract and activities. In addition, regular operational meetings take place between Council and Liberata staff. This includes specific meetings around closure of accounts issues. The Committee has noted the report and requested a further update at its next Committee on the Finance Improvement Programme

Internal Audit – External Quality Assessment

21. Internal audit within the public sector is governed by the Public Sector Internal Audit standards (PSAIS) which have been in place since 2013 but were significantly updated from April 2017. Compliance with the standards is mandatory for all principal local authorities. PSAIS aims to promote continued improvement in the professionalism, quality and effectiveness of internal audit services and a key element of this is to require audit services to have a periodic external assessment of compliance with the standards once every five years as part of the internal audit quality management programme.

22. The overall picture, from what has been a very rigorous and challenging assessment, is positive with the overall conclusion being that the service complies with the expectations of the Standards and out performs other audit services in local government. Audit reports can now include a statement of conformance with the Standards. The report identifies a number of good practice points where the service can be enhanced even further. These will be considered by the Service and an action plan will be developed. The Committee has noted the outcome of the external quality assessment of the Council's internal audit service.

Internal Audit Plan 2018/19

23. The Council has a duty to undertake an effective Internal Audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account relevant auditing standards. To ensure the best use of limited Internal Audit resources audit work needs to be carefully planned. In accordance with its terms of reference the Committee's role is to review the annual Internal Audit work plan. Good practice requires the Council to recognise that the plan should be responsive to changes in risks during the year and will therefore be reviewed at intervals throughout the year to ensure it remains relevant. The Committee has endorsed the Internal Audit Plan 2018/19.

24. The Internal Audit function is governed by its Audit Charter, which is a requirement of the Public Sector Internal Audit Standards and sets out the purpose, authority and responsibility of internal audit. The current Audit Charter was last considered by the Committee in 2017 and at this time no changes are proposed.

Member Development

25. A key requirement of an effective Audit Committee is well-informed members that collectively have some knowledge and experience of the key areas to be considered by the Committee. Appropriate and timely training for Members is an important way of ensuring Members are well prepared and gain the knowledge and experience needed to carry out their role effectively.

26. The Committee has agreed that a half day training session be held during October and officers will explore the potential for participative on-line seminars for further training sessions.

Work Programme

27. The Committee has noted its future work programme.

Commissioning

28. Following requests at previous meetings in relation to the internal audit reports in relation to the Bromsgrove Rail project and the Evesham Abbey Bridge project, the Committee received a high level summary of the outcome of these audits and a summary of the results of three other related audits (contracting, procurement and Place Partnership) to give a more rounded picture of key governance, control and risk issues relating to commissioning and contracting activity generally.

29. The report concluded that the report to Cabinet on the Bromsgrove project did not clearly set out the financial implications of the project and did not reflect the agreements made with partners. The key issues on the Evesham project were the Contractor's seriously under-priced bid and a skills deficit within the Council and as such this project shows the risks in accepting underpriced tenders i.e. those which offer the contractor no financial margin, especially where the contractor is also taking on significant cost risks. It also exposes the need for further skills development particularly around business case development and tender evaluation.

30. It is important that contract monitoring arrangements are robust to ensure that benefits, both financial and quality, originally identified are being achieved and contractors held to account for poor performance. Whilst areas of good practice were identified in procurement and contract management, the audits identified a range of non-compliances and need for additional guidance and support. Whilst some non-compliance is inevitable given the scale of procurement activity within the Council, the audits indicate that improvements in processes and overall levels of compliance are required.

31. The audits taken together with known issues arising from other significant contracts (Liberata) suggest that more guidance, support and training (particularly around service specification, business case development and tender evaluation) and better quality assurance / compliance monitoring is required. The Committee was particularly concerned that lessons learned from both successful and less successful commissioning were shared and that reputational risk should be part of the consideration of projects. The Committee has noted the issues arising from internal audits on commissioning issues.

Mr N Desmond
Chairman

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Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meeting of the Audit and Governance Committee held on 26 July 2018.