

COUNCIL
8 NOVEMBER 2018**REPORTS OF COMMITTEES****(a) SUMMARY OF DECISIONS TAKEN BY THE AUDIT AND GOVERNANCE COMMITTEE**

Annual Audit Letter 2017/18

1. Helen Lillington, Audit Manager from Grant Thornton, the Council's external auditor, presented 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 has undertaken and closes that year's audit. As such there are no new audit findings.
2. The Annual Audit Letter includes the fee for the audits. Following the audit of the statement of accounts the proposal is for an additional fee of £33,385 (£28,185 for the County Council and £5,200 for Worcestershire Pension Fund) to cover the extra work that was needed to be performed. Management accept this and will fund from vacancies. The Committee has noted the Annual Audit Letter 2017/18.
3. The External Auditor gave an unqualified opinion on the Worcestershire County Council and Pension Fund Accounts on 31 July. The Committee has noted the Independent Auditor's Report opinion on the Financial Statements. The Committee has noted the External Auditor's closure of the audit of the Worcestershire County Council and Pension Fund Accounts Letter. The Committee has asked officers to look into the possibility of adding risk as a standard element of the format of Cabinet reports.

Statutory Accounts 2017/18 – Lessons Learned

4. The statutory deadline for publishing the 2017/18 audited set of accounts was 31 July 2018. The statutory accounts presented to Committee on 26 July 2018 were not fully audited and delegated authority to the Chairman of the Committee for final authorisation. Since the last report, this work was completed and the accounts were published on time.
5. Significant improvements have been made in the statutory accounts process; however there are still a number of areas where improvement is required. Key stakeholders have been identified and their views sought as part of the review process. The Council will continue to work with them to ensure that the actions identified are implemented. The Committee has received details of the following areas identified as part of the review and progress made to date: Leadership and Governance; Programme Plan; Working Papers; Systems and Processes; Capital accounts; Reliance on Experts; Annual Governance Statement; and Staffing. The

Committee has noted the report and endorsed the recommended actions.

Update on Finance Improvement Plan

6. Following the discussion of the external audit opinion and Internal Audit Annual Reports at the July Committee meeting, the Chief Financial Officer has undertaken a review of all audit recommendations and carried out an assessment of the practices and procedures in place. This has identified significant improvements are needed to strengthen the control environment and to ensure that the Council has a fit for purpose finance function to support the organisation in the coming years.

7. As a result a change programme has been drawn up to address these issues. The Finance Improvement Programme has six projects that are interlinked: Control Environment; Budget Structures and roles and responsibilities; Financial Transactions; Staffing structures; Systems; and Partners and customers. Underpinning these projects are two cross-cutting projects: Communications; and Training

8. The Programme is being managed using the Council's project management approach, and includes a Project Manager and Board to oversee the actions. Draft project plans are being drawn up with significant improvements to be delivered by the end of the financial year and the whole project likely to last for some 18 months. Draft project plans are being drawn up with significant improvements to be delivered by the end of the financial year and the whole project likely to last for some 18 months. A Full Business Case is being drafted to reflect the anticipated costs and savings of the Programme. The Committee has noted the report and endorsed the recommended actions.

Internal Audit Provision update

9. Worcestershire County Council's (WCC) Internal Audit (IA) Service is provided by Warwickshire County Council (WarCC) following a public to public TUPE transferred shared service that started May 2015. The contract has been in place for 3 years and was extended by default 1 April 2018 for two years with an option to give a notice period break clause if this was to be different. An assessment has been undertaken of the value for money of this provision and alternative options assessed.

10. The requirement to have an Internal Audit function is a statutory one, and ensuring an appropriate level of resources is the responsibility of the Section 151 Officer. As part of my annual assessment the Chief Financial Officer has appraised the current performance and function of the existing Internal Audit arrangements with WarCC both against the original intentions of transfer and current standards.

11. Three options were considered:

- As is, although with improved management of the contract with potential changes;
- Serve notice on the contract and bring the contracted service back in-house; or

- Serve notice on the contract and procure a contract with another provider

12. An assessment has been undertaken against the following criteria: Price; Quality; Complexity; Partnerships; Reputation; and Control Environment. The chosen option is: 2 - Serve notice on the contract and bring the contracted service back in-house, based on both price and quality. This does not preclude a future review of the service provision and options for partnership. Discussions with WCC Monitoring Officer confirmed that the decision is delegated to the CFO around this service. As such option 2 was the chosen route to pursue and notice was served by 30 June 2018 to WarCC.

13. The Committee has noted the update on the position of Internal Audit services transferring back in-house and that progress updates be received at future meetings.

Update on Commissioning

14. At the last meeting on 26 July 2018, the Committee discussed the external audit's (Grant Thornton) conclusions around the Council's Value for Money arrangements. Part of Grant Thornton's conclusions were that *"While the Council is making progress in the area of commissioning there remains a risk that lessons learned from the implementation of major contracts are not being appropriately disseminated to all officers. There is a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for the users of the service. As a result we are proposing an except for VFM conclusion."*

15. As such external audit has noted that *"as part of our VFM work in future years we will review what actions have been taken to review and strengthen the arrangements."* Management are reviewing what actions are needed to address these concerns and recommendation. There has been recruitment to the Senior Leadership team in key posts relating to commissioning and finance. As part of the new tenures both the Director of Commercial and Change and the Chief Financial Officer have been assessing the current position, and comparing that to practices and experiences elsewhere.

16. At this stage the following has been undertaken:

- A report is going to the Corporate and Communities Overview and Scrutiny Panel
- A review of the current strategies and structures to assess fit for purpose arrangements
- A review of the top 10 to 20 contracts is underway to assess the current position on contracts and value for money
- A review of current contracts has been undertaken against lessons learnt from recent schemes
- The methods used to commit spend are being reviewed to ensure there is greater opportunity for economies of scale from more joined up purchasing across the organisation
- A commercial strategy update is being planned

17. There is still a significant amount of work to undertake, and discussions will be held with external audit during the coming months as part of follow up of

recommendations. The Committee has noted the report and that a further update be brought to the next Committee meeting.

Corporate Risk Report

18. 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.

19. 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. At the end of Quarter Four 2017/18 there were 196 individual risks entered in the risk register of which 17 were identified as high / "red" risks. These high/ "red" risks were reviewed as part of the Council's Annual Governance Statement process for 2017/18. The highest risks can be grouped into four risk areas:

- Children's Services – vulnerable children - primarily risks around safeguarding children which are being addressed by the Council's Improvement Plan
- Adult Social Care – risks around increasing demand and related pressures in the overall health and social care system
- Financial pressures and related issues
- Staffing – recruitment/retention/capacity – an issue across the Council but with specific "hotspots"

20. The Committee has noted the latest update of the Corporate Risk Register including mitigating actions identified in respect of red risks.

Counter Fraud Report 2017/18

21. The Counter Fraud Report summarises the Council's compliance with best practice and demonstrates its continued commitment to strong counter fraud measures. It is important that the Council maintains its counter fraud response as changes to service delivery continue to evolve. The Committee considers the report on an annual basis and has noted the counter Fraud Report 2017-18.

Internal Audit Progress Report

22. The Committee has noted the Internal Audit Progress Report for the period 26 July to 31 August 2018.

Work Programme

23. The Committee has noted its future work programme.

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 21 September 2018.