

**Audit and Governance Committee****Friday, 21 July 2017, County Hall, Worcester - 10.00 am**

<b>Present:</b>		<b>Minutes</b> Mr N Desmond (Chairman), Mr R W Banks, Mr A J Hopkins, Mr P Middlebrough, Mr C Rogers, Mrs E B Tucker and Ms R Vale
<b>Available papers</b>		The Members had before them:  A. The Agenda papers (previously circulated); and  B. The Minutes of the meeting held on 24 March 2017 (previously circulated).
<b>412</b>	<b>Apologies and Named Substitutes (Agenda item 1)</b>	An apology was received from Mr L C R Mallett.
<b>413</b>	<b>Declarations of Interest (Agenda item 2)</b>	None.
<b>414</b>	<b>Public Participation (Agenda item 3)</b>	None.
<b>415</b>	<b>Confirmation of Minutes (Agenda item 4)</b>	<b>RESOLVED</b> that the Minutes of the meeting held on 24 March 2017 be confirmed as a correct record and signed by the Chairman.
<b>416</b>	<b>Corporate Risk Report (Agenda item 7)</b>	The Committee considered the latest refresh of the Corporate Risk Register.  In the ensuing debate, the following principal point was raised: <ul style="list-style-type: none"><li>Was the risk associated with "serious harm or death due to a failure on the part of the Council" anticipated to remain as a red risk for some time? Tony Leak, the Management Information and Analytics Manager responded that following the assessment by Ofsted of the Council's safeguarding of children as inadequate, it was</li></ul>

anticipated that it would take some time for the improvement plan to take effect and for the risk to be down-graded.

**RESOLVED that the latest refresh of the Corporate Risk Register including the red risks identified and mitigating actions be noted.**

**417 External Audit Progress - Worcestershire County Council Annual Statutory Financial Statements for the year ended 31 March 2017 (Agenda item 5)**

The Committee considered the External Audit Progress report for Annual Statutory Financial Statements for the year ended 31 March 2017.

Sean Pearce, the Chief Financial Officer introduced the report and made the following points:

- Usually at this stage of the year, the fully audited version of the Statement of Accounts would be reported to this Committee meeting. However due to a number of issues, the audit work had been delayed and therefore it was only possible to provide a progress report. The work associated with the new financial system had taken more officer time than expected. In addition, the old financial system (SAP) had gone into disaster recovery mode for a week. The combination of these factors had impacted on the ability of the finance team audit the Accounts to the required timescale
- A further audit visit had been arranged with Grant Thornton for the end of August to review the quality assurance arrangements
- The final Statement of Accounts would be brought to the September Committee meeting which was within the statutory deadline.

John Gregory from Grant Thornton made the following points:

- In 2018, the statutory deadline for the Accounts would be brought forward to 31 May and the deadline for publishing to 31 July. The Council therefore had limited room for manoeuvre to meet these timescales
- There had been a four day delay in the availability of the draft Accounts for inspection by the external audit team and consequently there had been an impact on the availability of his staff to come in and undertake the necessary audit work. A number of errors had been identified in the first draft and it had not been possible for the external audit team to audit a full set of Accounts. There

remained a number of queries on the second version of the Accounts

- The external audit team had worked with the finance team during the interim audit earlier in the year to agree an approach to the more difficult areas relating to the proposed treatment and disclosure in the Accounts relating to: changes to the narrative of the Accounts; and accounting arrangements for the EfW plant at Hartlebury. Unfortunately, the finance team had been unable to respond to the issues raised in the intervening period
- A number of errors and disclosures had been identified during the audit process to date and it had been agreed that these would be adjusted accordingly
- There remained a number of outstanding queries which needed to be resolved in order to complete the audit work. A schedule of work had been agreed and the finance team would be given time to complete this work before Grant Thornton returned to complete the audit work
- The Value for Money audit had been completed and some areas of weakness had been identified in relation to the 'inadequate' rating for Children's Services by Ofsted that required more work. However, it was considered that there was sufficient mitigation of risks in the Council's action plan to propose a qualified 'except for' conclusion
- A number of issues had been identified from the auditing process for the finance team to review to avoid replication next year.

In the ensuing debate, the following principal points were raised:

- It was important to understand the reason for the poor response to the queries raised by the external auditor, whether for cultural reasons or due to a lack of training. John Gregory responded that officers had been appropriately trained. Issues arose from a combination of factors including a failure to understand the training provided and workload pressures. Mark Sanders added that a joint training exercise had taken place to help the finance team to understand what was expected for the forthcoming auditing arrangements however he acknowledged that the outcome was not good enough on this occasion
- In previous years, the audit work had been completed to schedule. Were the problems

experienced this year a one-off occasion or did they give cause for concern for future years? John Gregory commented that generally the previous performance of the finance team had been much better. Specific issues had arisen but had not impacted on timescales. The key factor this year was that the finance team had been diverted away from auditing the Accounts to address other priority issues

- In response to a query in relation to the risks associated with the Ofsted report, John Gregory explained that the qualification on the Value for Money audit was predicated on the risk highlighted by Ofsted. At this stage, it was too early to fully assess any response from the Council. However in future a more nuanced opinion would be given based on the progress made in response to the Council's action plan and views of other regulators including ministerial letters
- Was the number of queries raised by the external auditor on the draft accounts considered to be high? John Gregory indicated that usually at that stage he would expect around thirty queries, therefore sixty queries was considered to be too high
- Sean Pearce commented that although the outcome of the audit work to date was frustrating and disappointing, there was no evidence that any failings were systematic. There were a number of factors that came together to present the 'perfect storm'. However it was important that the problems experienced this year were not replicated next year, particularly given the tighter timescales
- In response to a query, John Gregory advised that if the IT issues associated with the Council's financial system were not resolved then there could be an impact on the timetable for the audit arrangements for next year's accounts
- Sean Pearce acknowledged that Quality Assurance needed to improve. Evidence needed to be provided that proved that was a one-off event and not a systematic issue. The Council needed to focus on the arrangements for next year's Accounts
- Mark Sanders commented that he did not consider the failings in the auditing arrangements to be systematic. For a number of years this Council had been one of the fastest in the country to complete the audit of its Accounts. In particular,

**418 External Audit Progress - Worcestershire County Council Pension Fund Annual Statutory Financial Statements for the year ended 31 March 2017 (Agenda item 6)**

the shutdown of the SAP system had affected the finance team's ability to access essential documentation. However this had now been resolved and an action plan to complete the work had been agreed with Grant Thornton

- Was the new IT system now delivering what was expected? Mark Sander stated that work continued to ensure that the IT systems were operating correctly and a test scenario would be undertaken before the close down of the years' Accounts.

**RESOLVED** that the progress made on the External Audit of the 2016/17 Worcestershire County Council Statement of Accounts be noted and the plan return to the Committee meeting on 26 September 2017 for final approval.

The Committee considered the External Audit progress report for the Pension Fund Annual Statutory Financial Statements for the year ended 31 March 2017.

In the ensuing debate, the following principal points were raised:

- Sean Pearce thanked Mark Forrester and Grant Thornton for their work in producing a positive set of Accounts for the Pension Fund
- John Gregory commented that there were no matters of concern arising from the Pension Fund Accounts and very few queries had been identified. He was therefore in a position to issue an unqualified opinion on the Pension Fund Accounts.

**RESOLVED** that:

- a) the progress made on the External Audit of the 2016/17 Worcestershire County Council Pension Fund Statement of Accounts be noted and the plan return to the Committee meeting on 26 September 2017 for approval.
- b) the Worcestershire County Council Pension Fund Audit Findings Report for the financial year ending 31 March 2017 be noted.

**419 Internal Audit Annual Report 2016/17**

The Committee considered the Internal Audit Annual Report 2016/17.

**(Agenda item 8)**

In the ensuing debate, the following principal points were raised:

- It was encouraging to note that the extensive nature of the internal audit work programme and the associated controls embedded in the organisation
- John Gregory commented that it was good to see that the instances of limited assurance were spread over a number of issues rather than concentrated in one particular area.

**RESOLVED that the Internal Audit Annual Report 2016/17 be endorsed.**

**420 Internal Audit Risk Assessment, Plan and Charter 2017/18 (Agenda item 9)**

The Committee considered the Internal Audit Risk Assessment, Plan and Charter 2017/18.

In the ensuing debate, the following principal points were raised:

- It was queried why audit work had been planned for such a specific subject as Evesham Abbey Bridge. Garry Rollason commented the scheme had been included in the planned work as a result of concerns expressed previously by the Committee
- It was noted that all the topics identified for the work plan being high priority. Garry Rollason responded that due to limited resources, the audit team needed to prioritise its work commitments. Therefore high priority areas had been included in next years' programme. Medium and low priority issues would be reconsidered when preparing subsequent years plans.

**RESOLVED that the following documents be approved:**

- a) the Internal Audit Strategy 2017/18; and**
- b) the Internal Audit Charter.**

**421 Work programme (Agenda item 10)**

The Committee considered its work programme.

In the ensuing debate, the following principal points were raised:

- Would it be possible to provide a progress report on the Statement of Accounts to the December

meeting of the Committee? John Gregory advised that it would be possible to provide an update on progress to date as well as flag up any issues of concern. Sean Pearce added that he would also bring a report to the December meeting outlining the lessons learnt from the auditing process this year

- John Gregory updated members on the Government's process for the procurement of external auditors. The procurement process had been divided into six lots of different sizes based mainly on audit fees. Bids were assessed on quality and price. It had been announced that Grant Thornton had successfully bid for approximately 40% of the market. This would mean that Grant Thornton would keep the majority of its existing clients and pick up some extra work. The PSAA would be contacting individual bodies to seek their views on their future external auditing arrangements. It was anticipated that audit fees would be reduced as a result of the procurement exercise.

**RESOLVED** that the work programme be noted subject to the following reports being brought to the meeting on 8 December 2017:

- a) **External Audit Progress Report – Annual Statutory Financial Statements for the year ending 31 March 2018; and**
- b) **An analysis of the difficulties experienced with the Annual Statutory Financial Statements for the year ending 31 March 2017.**

The meeting ended at 11.10am.

Chairman .....