

Audit and Governance Committee

Tuesday, 26 September 2017, County Hall, Worcester - 2.00 pm

		Minutes
Present:		Mr N Desmond (Chairman), Mr G R Brookes, Mr A J Hopkins, Mr L C R Mallett, Mr P Middlebrough, Mr C Rogers, Mrs E B Tucker and Ms R Vale
Available papers		The Members had before them: <ul style="list-style-type: none">A. The Agenda papers (previously circulated); andB. The Minutes of the meeting held on 21 July 2017 (previously circulated).
422	Apologies and Named Substitutes (Agenda item 1)	An apology was received from Mr R W Banks. Mr G R Brookes substituted for Mr R W Banks.
423	Declarations of Interest (Agenda item 2)	None.
424	Public Participation (Agenda item 3)	None.
425	Confirmation of Minutes (Agenda item 4)	RESOLVED that the Minutes of the meeting held on 21 July 2017 be confirmed as a correct record and signed by the Chairman.
426	Annual Statutory Financial Statements for the year ending 31 March 2017 (Agenda item 5)	The Committee considered the Annual Statutory Financial Statements for the year ending 31 March 2017. The Chief Financial Officer introduced the report and commented that the audit team had worked with the external auditor and considerable progress had been made resolving the Quality Assurance issues that had been highlighted in the last report to Committee. He apologised for the lateness of the paperwork but his team and the audit team had been working up to the report deadline to resolve all outstanding issues.

John Gregory and Helen Lillington from Grant Thornton, the Council's external auditor introduced the Audit Report findings and made the following points:

- It was acknowledged that significant progress had been made in finalising the Accounts since the last Committee meeting. The early stages of the recovery plan had not gone to schedule however the pace of work had picked up more recently
- The report reflected the state of the Accounts as they stood five days ago. There was no change to the Value for Money conclusion or the key messages and the Pension Fund Accounts had already been approved by the Committee
- There were three non-material unadjusted misstatements identified during the audit:
 - Adjustments between Accounting Basis and Funding Basis under Regulations – This item was now likely to be amended as the finance team now understood how the discrepancy had arisen
 - Usable Reserves – There was an unexplained difference of £1.1m which had been treated as an unadjusted misstatement
 - Creditors in respect of s106 and s278 contributions – Consideration was given as to how this issue would be recorded in the Accounts. It was agreed that in future years it would be included further down the balance sheet as a long term liability rather than a current liability. Because of the impact on the way these amounts flow through the accounts, no reclassification considered for the current year and therefore recorded as an uncorrected misstatement for members to approve as part of the letter of representation.
- The number of misclassifications and disclosure changes reported in the interim AFR were significantly higher than normal but none had been identified as material in nature with the exception of exit packages
- Property, Plant and Equipment revaluations had been highlighted as a significant risk. The Council was not required to revalue all its assets however it was required to demonstrate that there had been no change to their value. It was not possible to give that assurance in the interim report however officers had now reached the point where there were no items materially misstated. The external auditor was currently evaluating the evidence and explanations provided by the

Council

- Initial testing indicated that the disclosure note in relation to Grant and Contribution Income required correcting. The external auditor was now satisfied that the required evidence had been provided and the relevant note would be revised accordingly
- Cut off testing of income – The audit team had had significant difficulty in obtaining the necessary reporting from the new general ledger system in order for the external auditor to complete the necessary testing. This had now been completed with no material errors. However it needed to be a focus of attention for the Council going forward
- Employee Remuneration in particular exit packages – Initial testing of this disclosure note identified a number of potential errors and difficulties obtaining information. The external auditor had requested a 100% review of the information. This had been completed but some queries remained and an assurance could not be given at this stage
- Energy from Waste PFI – The audit team had recently been provided with evidence regarding the valuation of the plant and this had led to a few minor changes to the note
- 'Telling the Story' – There had been a number of unresolved queries which were not material in nature
- There was one material issue that had been identified post report publication. £15.3m needed to be reclassified between Directorates. This related to internal recharging between Directorates. The external auditor needed to ensure that the evidence provided by the Council was correct and accurately recorded
- The deadline for the publishing of the Accounts was 30 September. There were a number of issues that remained unresolved and it was a question of the external auditor finding the time to review the work. An agreement had been made with the Chief Financial Officer to provide the final accounts by lunchtime on 27 September. The final version needed to incorporate all the necessary changes. Hopefully this would be a smooth process but if further issues arose they would need resolving with the audit team this week. Every effort was being made to meet deadlines but there was a risk that it would not be achieved as there was only two external auditors in a position to complete the work
- The deadline for the Whole of Government

Accounts was 29 September 2017. It had been agreed with the Chief Financial Officer that it would not be possible to meet that deadline.

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

- How did the number of misclassifications and disclosure changes compare to last year's accounts? Helen Lillington commented that there were significantly more this year (100 compared to 40). The Chief Financial Officer added that it was clear from the interim report that the presentation of the Accounts needed to be better. However, the finance team had responded to the challenge although it had not been possible to address all of the issues in the timeframe for this Committee meeting
- What had been the change that had led to the difficulties experienced this year? The Chief Financial Officer responded that there had been a number of changes to the finance team this year. It was acknowledged that the capacity and the Quality Assurance work of the team needed to be improved. In addition, there had been changes in the accounting process, notably the addition of 'Telling the Story'. After the last Committee meeting, he had become personally involved in the Quality Assurance work
- A member of the Committee commented that the fact that there had been a significant number of errors in the Accounts, process failings and an impact on the timeframe for the budget-setting process would not be acceptable to the taxpayers of the county. The Chief Financial Officer commented that there was no link between the lateness of the Accounts and the budget-setting time frame
- Did the difficulties experienced this year result from the transfer of staff to resolve difficulties with the Mercury HR/Payroll system? The Chief Financial Officer indicated that members of the finance team had been seconded across to that project and had been replaced in a temporary capacity. It was hoped that the training and support provided for these temporary staff was adequate however it was found that the Quality Assurance of the work was lacking. Since the last report to Committee the seconded staff had returned to support the finance team
- What would happen if the Council failed to meet

the statutory deadline for the production of the Whole of Government Accounts? The Chief Financial Officer stated that the Council would appear in the report by Public Sector Audit Appointment Ltd however there would not be a fine. A date would need to be agreed with the external auditor to finalise the Whole of Government Accounts. The key issue was finalising the Accounts by the statutory deadline. A number of changes had been made which had been tracked by the finance team. There were now four issues that needed to be resolved.

- Was there still time to resolve the outstanding issues if the deadline on 29 September agreed with the external auditor was not met? John Gregory indicated that the external audit staff had not expected to be working on the Accounts at this stage so resources have had to be juggled, so it was difficult to say
- In response to a query, John Gregory confirmed that the recent work undertaken by the external auditor was not included in the agreed annual fee and the extra cost would need to be agreed with the Chief Financial Officer and reported to this Committee. A rough estimate would be a further cost of £20k. Helen Lillington added that a decision had been made not to bring in extra external audit staff because the time necessary to brief them on the issue would be counter-productive. The external audit team was therefore a small team and other commitments had had to be moved to accommodate this extra work
- The Chief Financial Officer emphasised that the Accounts as presented to the Committee were complete aside from a few changes and there was no risk of material misstatement to the overall Statement of Accounts at this point. The two main outstanding issues set out by the Auditor were the testing of the disclosure notes for Property, Plant and Equipment and severance costs where the Auditor applied a lower materiality threshold for testing. He was satisfied that there was no issue based on the evidence available at this point but it was a case of working through this assurance with the external auditor. There were lessons to be learned from the process which would be reported to the December Committee. Where a material issue had been identified, it had been resolved or changes made to the Statement of Accounts. There would be no impact on council taxpayers
- A member of the Committee commented that the

situation was concerning and the Council had put the external auditor in a difficult position. Was the Chief Financial Officer confident that all the outstanding matters would be resolved before the statutory deadline? The Chief Financial Officer responded that in relation to Property, Plant and Equipment, the work had been presented to the external auditor on Tuesday this week. There were six issues relating to severance costs, two of which had been resolved, the finance team were working on the other issues in order to provide evidence to the audit team. He gave an assurance that the Accounts had been quality assured, subject to two tiers of review and cross-referenced and that this work was continuing with the Auditor

- In response to a query, the Chief Financial Officer explained that the reallocation of further staff to support the Quality Assurance audit work had not impacted upon other work
- A member of the Committee commented that it was too late for the Committee to receive the 'lessons to be learned' report in December 2017. It was vital to receive the input of Sean Pearce before he left the Council in mid-October 2017 and to allow time to put things right. The Committee had been placed in a difficult position whereby it was asked to approve the Accounts despite a number of issues remaining unresolved. The Chief Financial Officer commented that the remaining changes to the Accounts related to disclosures and adjustments rather than material risk to the primary financial statements and had no impact on the bottom line
- In response to a query, the Chief Financial Officer indicated that he had made reference to his personal involvement to give the Committee additional assurance that where there was a material issue it had received serious consideration and been subject to a thorough review, in relation to the Property, Plant and Equipment and PFI work
- It had been two months since the last Committee meeting and yet new items had come to light which had resulted in a crescendo of activity but despite this work, there remained inconsistencies in the Accounts. Helen Lillington responded that the Council had been left with a list of outstanding issues to resolve at the end of July. However on the return visit it was found that not everything had been completed. Information was still awaited on sample testing. The pace had been picked up by

the Council but late in the day. John Gregory added that the problems dated back to the Council's response to the external auditor's initial findings back in March/April 2017

- It was difficult to approve the Accounts with so many issues outstanding. Helen Lillington commented that there were some outstanding issues and the only likely material issues related to the testing of severance costs
- In response to a query about the inconsistent figures relating to severance packages, Mark Sanders, Senior Finance Manager explained that it was possible for one person to have more than one role within the organisation. Severance packages had a materiality level of £10k and the audit team were currently worked through the outstanding issues. The Chief Financial Officer added that this reference in the Accounts also included those severance packages paid and those forecast
- In response to a query, the Chief Financial Officer confirmed that it was appropriate to receive the 'lessons to be learned' report in December 2017 based on the work required to support a thorough analysis with the team. The finance team had been identifying issues for improvement from the outset. He was confident that Sue Alexander, the interim Chief Financial Officer would be able to report back appropriately to the December Committee. The finance team would commence planning for next year's Accounts as soon as the current Accounts were finalised
- Were the difficulties experienced this year a one-off occurrence or evidence of systematic failure? John Gregory commented that there was no evidence of systematic failings. It was a challenge for all councils to meet the statutory deadline when required to make savings. However these issues needed to be addressed for next year. Helen Lillington added that it was important to identify the appropriate levels of resources and expertise available next year as the Council would be using a new financial system and a new reporting mechanism combined with a new tighter timeframe for completion of the Accounts. The Chief Financial Officer commented that the finance team had already started the planning process and understanding the risks and benefits of the new financial system
- The Committee recognised that previous accounts, including 2015/16 Accounts had been

completed on schedule, would that finance team be available next year? The Chief Financial Officer responded that every effort would be made to ensure that the appropriate expertise/oversight was in place next year. Mark Sanders added that it was important for the finance team to get to grips with the new financial system. Temporary staff would not be required next year and if additional help was required, an adjustment could be made from within the existing staff resource. The key issue was that the approach to the Accounts process would be planned rather than reactive

- Would appropriate advice be sought from Human Resources to provide strategies to help the audit team manage the auditing process? Mark Sanders explained that expert advice would be sought from the talent management team. The finance team was a small group of staff and because of the nature of the work it was not possible to resolve difficulties by adding extra untrained staff. It was about employing a skilled, motivated team receiving the appropriate level of training
- A member of the Committee commented that there was no confidence that the Committee would be in a position to sign off the Accounts at this stage given the remaining unresolved errors. It was particularly concerning that a material issue to the amount of £15.3m relating to misclassification between Directorates had been identified so late in the process and therefore there was no confidence that other issues might not arise following this meeting. The Chief Financial Officer gave an assurance that all the outstanding matters would be finalised where possible with the external auditor before the statutory deadline and that there remained a low risk that the Accounts contained any material misstatements that would affect the bottom line. He asked that he be granted delegated authority should there be any non-material residual amendments to the Accounts in consultation with the Chairman and Vice-Chairman following the conclusion of the outstanding external audit work.

RESOLVED that:

- a) the Final Accounts Pack including the Statement of Accounts for the financial year ending 31 March 2017 be approved;**

- b) the Chief Financial Officer is granted delegated authority to make any residual amendments to the Statement of Accounts in consultation with the Chairman and Vice Chairman of the Committee as appropriate following the conclusion of any outstanding external audit work; and
- c) the Chief Financial Officer is authorised to sign the Letters of Representation on behalf of the County Council.

427 Annual Governance Statement (Agenda item 6)

The Committee considered the Annual Governance Statement.

RESOLVED that the Annual Governance Statement be approved.

428 Counter Fraud Report 2016-17 (Agenda item 7)

The Committee considered the Counter Fraud Report 2016-17.

RESOLVED that the Counter Fraud Report 2016-17 be noted.

429 Internal Audit - External Quality Assessment (Agenda item 8)

The Committee considered the arrangements for an external quality assessment of the internal audit service.

RESOLVED that the arrangements for an external quality assessment of the internal audit service be noted.

430 Work Programme (Agenda item 9)

The Committee considered its work programme.

The Committee were informed that an item on the Money-Laundering Policy would be brought to the December 2017 Committee meeting.

RESOLVED that the work programme be noted.

The meeting ended at 4.05pm.

Chairman

