

Audit and Governance Committee

Friday, 8 December 2017, County Hall, Worcester - 10.00 am

		Minutes
Present:		Mr N Desmond (Chairman), Mr R W Banks, Mr P B Harrison, Mr L C R Mallett, Mr C Rogers, Mrs E B Tucker and Ms R Vale
Available papers		The Members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meetings held on 26 September 2017 and 13 October 2017 (previously circulated).
435	Apologies and Named Substitutes (Agenda item 1)	Apologies were received from Dr A Hopkins and Mr P Middlebrough. Mr P B Harrison substituted for Mr P Middlebrough.
436	Declarations of Interest (Agenda item 2)	None.
437	Public Participation (Agenda item 3)	None.
438	Confirmation of Minutes (Agenda item 4)	RESOLVED that the Minutes of the meetings held on 26 September 2017 and 13 October 2017 be confirmed as a correct record and signed by the Chairman.
439	Final Accounts 2016/17 - Lessons Learned Report (Agenda item 5)	The Committee considered the External Audit 2016/17 – Lessons Learned Report. The details were set out in the report. Sue Alexander, the Interim Chief Financial Officer provided a detailed overview of the issues set out in the report. Further to the report, she confirmed that Jenni Morris – Finance Manager, Reporting Planning and Projects, an experienced member of Finance team, would be the designated Finance Manager responsible for the project plan and single point of contact with

External Audit.

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

- The findings of the review were a terrible indictment on the events that lead up to the closure of the Accounts. Elementary mistakes had been made which had cost the Council financially and in terms of its reputation and good record in closing the Accounts on time
- The review showed that the Finance Leadership Team had not received adequate progress updates on the audit of the Accounts. People had been assigned to the work with insufficient training and supervision. The question needed to be asked as to why experienced staff had been transferred to bail out a failing contract. Why were the issues at Liberata prioritised over the audit of the Accounts – was this a result of political pressure? How could the Committee be assured in the future that should a similar situation occur in another service area, finance staff would not be transferred?
- Sue Alexander, the Interim Chief Financial Officer commented that it was important that the report was very straight-forward about what went wrong with the process for the closure of the Accounts. The responsibility for closing the Accounts on time rested with the Section 151 Officer, not the Executive. There was a lack of ownership by the Finance Leadership Team who had not received regular updates. It was possible that the previous good track record of the Council in closing the Accounts ahead of schedule had created a degree of complacency but this was not an excuse. In relation to the difficulties experienced by Liberata, it had been agreed between the finance and HR leadership teams that it would be appropriate to second a number of experienced members of the finance team to resolve the issues being experienced. In hindsight the final accounts team was inexperienced and their work was not properly assured
- There was no explanation in the report of the reasoning for the prioritisation of the work on the HR/payroll/finance system over the audit of the Accounts. Sue Alexander acknowledged that that it was a difficult decision to decide where to prioritise resources and the decision was taken for experienced staff to be taken away from closure of

accounts work. However irrespective of the secondment of staff, it should have been anticipated from the outset that extra resources would be needed to facilitate the closure of the Accounts and the new system implementation

- The analysis of what went wrong was a very thorough, honest and candid piece of work which provided a clear set of actions. The conclusions also reflected the observations by the external auditor. This was a one-off situation and a huge wake-up call for the organisation to improve things going forward
- Why was action not taken earlier in the process when issues had been drawn to the attention of the Council by the external auditor? Sue Alexander responded that an opportunity had been missed as early as May 2017 when the external auditor had highlighted a large number of errors in the draft Accounts. At that stage, there was sufficient time to address their concerns during the summer months but this was not done
- John Gregory on behalf of Grant Thornton, the external auditor commented that the report was thorough, acknowledging the difficulties that took place and provided helpful actions. The action plan was very demanding and the Council was also faced with added pressure of producing next year's Accounts using the new ledger for the first time and within a compressed timescale. It was therefore important to carefully monitor the progress going forward. A number of issues had been raised in the interim audit in March/April particularly the Council's approach to a number of key judgements for example the value of the EfW Plant. These issues were not addressed in time for the next Committee meeting in May and from that point on the Council was playing catch-up. Helen Lillington from Grant Thornton added that interim testing had not also been finalised at that point and this had been drawn to the attention of officers
- The Chairman thanked Sue Alexander for her full, frank and honest report which had got to the nub of the issues and had a close synergy with the Annual Audit Letter from the external auditor. The report was damning in that it highlighted a catalogue of errors in the production of the Accounts. He would wish to see the Strategic Leadership Team and the Cabinet Member with Responsibility for Finance take ownership of the process. Quality assurance had been highlighted

as a major issue not just in terms of the quality of the financial data but also the narrative for the Accounts. A dry run of the Accounts process would take place in January 2018 and it was important that the Chairman and Vice-Chairman were fully updated. Progress would then be reported to the next Committee meeting. Staffing had been highlighted as a weakness particularly as a result of the secondment of staff to the Liberata project. It was vital that the right quality staff were in place going forward. If staff were taken off the final accounts then the Committee should be informed.

RESOLVED: that

- a) The report be noted; and
- b) The Committee receives an update report at its meeting on 16 March 2018.

440 Annual Audit Letter 2016/17 (Agenda item 6)

The Committee considered the Annual Audit Letter 2016/17. The details were set out in the report.

John Gregory from Grant Thornton, the Council's external auditor introduced the report and commented that:

- The 2016/17 Accounts had been signed off by the external auditor on 17 October 2017 and an unqualified opinion had been issued
- The Pension Fund Accounts were consistent with the main Accounts and had also been signed off at the same time. In addition, the Whole of Government Accounts had also now been signed off. There were no issues arising from these pieces of work to report to the Committee

In the ensuing debate, it was agreed that there were no matters arising from the Annual Audit Letter on which the Committee would wish to receive further reports or issues to draw to the attention of Council.

RESOLVED: that the Annual Audit Letter 2016/17 be noted.

441 Corporate Risk Report (Agenda item 7)

The Committee considered the Corporate Risk Report. The details were set out in the report.

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

442 Anti Money Laundering Policy (Agenda item 8)

- Did other councils have similar issues in relation to the risks associated with Children and Adult Social Care? Tony Leak responded that a number of councils were experiencing difficulties with Children's Social Care. This Council's Children's Social Care arrangements had been deemed as inadequate by Ofsted which meant that it was necessary to allocate a red risk rating. It was therefore reasonable to assume that any other council with a similar Ofsted rating would be allocating a red risk rating accordingly
- John Gregory added that Adult Social Care had been identified as a high risk by many councils. Another major risk being faced by a number of councils related to their overall financial position. This council had taken positive steps in this respect and was in a better position than most.

RESOLVED that the latest update of the Corporate Risk Register including mitigating actions identified in respect of red risks be noted.

The Committee considered the Anti Money Laundering Policy. The details were set out in the report.

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

- In response to a query, Sue Alexander explained that the Anti Money Laundering Policy had been updated in response to an EU Directive issued in June 2017. It was important that the Council undertook the appropriate due diligence to understand who it was doing business with. John Gregory added that the main reason for the EU Directive was the prevention of money laundering to fund terrorist activities
- What responsibility did the Council have in relation to the role of district councils who collected payments on its behalf? Sue Alexander commented that she would discuss with district council colleagues whether any reference needed to be made in the Policy regarding the financial relationship between districts and the County Council.

RESOLVED that the Anti Money Laundering Policy be approved.

443 Internal Audit Progress Report 1 April to 31 October 2017 (Agenda item 9)

The Committee considered the Internal Audit Progress Report 1 April to 31 October 2017. Details were set out in the report.

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

- Garry Rollason commented that there were a number of outstanding audits where managers had not responded to requests for further information. As requested the report included additional information on the length of time recommendations had been outstanding. Sue Alexander added that individual Directors would be made aware of any outstanding issues and that should the information not be forthcoming then it would be reported to this Committee. The Chairman welcomed the additional information provided
- A number of the outstanding issues highlighted in the audit report had been included in evidence provided to the overview and scrutiny panels. Had any thought been given to linking this work to the Audit Report? Sue Alexander responded that Directors should be aware of the scrutiny work
- It was concerning that the Cabinet were unaware of the open-ended nature of the contract for Bromsgrove Railway Station and that the issue had only come to light as a result of a retrospective audit. Sue Alexander acknowledged that the report to Cabinet in 2013 was ambiguous in terms of the development costs of the Bromsgrove Railway Station project. It was important that reports to Cabinet of this nature clearly outlined future costings
- It was requested that a report on the audit and governance issues associated with Bromsgrove Railway Station Project be brought to the Committee meeting in March 2018 and that the Director of Economy and Infrastructure be invited to the meeting.

RESOLVED that the Internal Audit Progress Report be noted.

444 Work Programme (Agenda item 10)

The Committee considered its future work programme.

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

- Concern was expressed about the impact of the

issues experienced with the HR/ payroll and finance system on the publishing of the accounts. A report should be brought to the next meeting outlining what happened with the contract with Liberata, the impact and the associated costs. Sue Alexander commented that these issues had been addressed as part of the independent SOCTIM Report

- It was agreed that the Head of Commercial be invited to the next meeting presenting a report which would focus on the governance arrangements associated with the commissioning of the HR/Payroll system in particular its past and future impact on the Audit of Accounts process.

RESOLVED that the work programme be noted subject to the addition to the following reports to 16 March 2018 meeting:

- **Audit and governance issues associated with Bromsgrove Railway Station Project**
- **Governance arrangements associated with the commissioning of the HR/Payroll system in particular its past and future impact on the Audit of Accounts process**

The meeting ended at 11.25am.

Chairman