

## Audit and Governance Committee

### Friday, 27 June 2014, 10.00 am, County Hall, Worcester

#### Present:

#### Minutes

Mr W P Gretton (Chairman), Mrs S Askin, Mr S J M Clee, Mr N Desmond, Mr L C R Mallett and Mr P A Tuthill.

#### Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 21 March 2014 (previously circulated).

**299**     **Named  
Substitutes  
(Agenda item 1)**

None.

**300**     **Apologies/  
Declarations of  
Interest  
(Agenda item 2)**

An apology was received from Mr R J Sutton.

**301**     **Public  
Participation  
(Agenda item 3)**

None.

**302**     **Confirmation of  
Minutes  
(Agenda item 4)**

**RESOLVED** that the Minutes of the meeting held on 21 March 2014 be confirmed as a correct record and signed by the Chairman.

**303**     **Annual  
Statutory  
Financial  
Statements for  
the year ending  
31 March 2014  
(Agenda item 5)**

The Committee considered the Annual Statutory Financial Statement for the year ending 31 March 2014. The report indicated that the Statement of Accounts for the year ending 31 March 2014 had been completed and independently audited to meet the statutory deadline for the 2013/14 accounts to be formally approved by 30 June 2014. The County Council went a step further than what was required statutorily (approval by 30 September 2014) and ensured these were finalised, audited and approved by 30 June 2014.

The independent external auditor had indicated that they would issue an unqualified audit opinion subject to the Committee approving the statements and there being no matters arising from the public inspection period.

The two key headlines were:

- An underspend against the County Council's cash limited revenue budget of £0.1 million, and
- An decrease of £10.2 million in County Council useable reserves.

There were no further matters of substance that needed to be brought to the Committee's attention.

The Head of Corporate Financial Strategy introduced the report and made the following main points:

- He thanked Grant Thornton for the smooth running of the audit which had been completed in a short timescale which was particularly impressive given the work associated with the Waste PFI contract
- In overall terms, revenue spending was within delegated cash limits of £341 million; The Council's General Balances were at £13.0 million, a reduction of £2.1 million from 2012/13 (they were planned to be reduced by £2.2 million when the budget was set)
- The Council's long term assets had been compared against its liabilities and overall debt levels had reduced over the last 3 years, and
- The audit of the Pension Fund had been particularly successful and the external auditors had been complementary about the work undertaken by the Internal Audit pensions section.

Helen Lillington and Terry Tobin introduced the Audit Findings Report of the Council and the Pensions Fund and made the following points:

- The audit had been very positive and presented within the proposed timescale. Work was continuing in response to issues raised in relation to the Council's waste solution which would need to be finalised before a conclusion could be reached on the Value for Money (VFM) element of the work
- A number of adjustments to the accounts related to Property, Plant and Equipment and although efforts had been made by officers to address the issues raised last year, further focus on this area of work was required
- If any financial questions/objections were received during the public consultation period, it was possible that the accounts could not be signed off

by the proposed closure date of 18 July. To date nothing had been received but there was still time. Any delay of this nature would not detract from the work that had been done to date

- Given the large volume of correspondence from members of the public and the unique nature of the arrangements associated with the Energy from Waste contract, a detailed review of the process had been undertaken. Although some of the correspondence was irrelevant, it was still necessary to read through every item of correspondence. There was a reasonable expectation that an objection to the accounts would be received and therefore the matter had to be treated in a quasi-judicial manner
- An area of the Energy from Waste contract that had been focussed on was how the decision had been made in December 2009 to determine which technology would be used to deal with the residual waste. The officers' report to Cabinet recommended a particular form of technology however it was considered that the report should have been more detailed with a cost/benefit analysis of the preferred option and an evaluation of alternative options. However it was not anticipated that this matter would impact on the VFM conclusion and the auditors were minded to give an unqualified opinion
- In relation to the Pension Fund, there were very few issues that had been identified to be addressed by the Council. The work of the Internal Audit pensions team had made the process very smooth and their help was appreciated.

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

- Did the external auditor expect to receive representations from members of the public on the accounts during the public consultation period? Helen Lillington stated that comments needed to relate to an item of expenditure in the accounts. There were items of expenditure in the accounts associated with the Energy from Waste contract and it was anticipated members of the public would be legitimately use these items as a basis to object to the accounts
- Had the letters received to date from members of the public been individually hand-written or batch copied? Terry Tobin stated that the motives

behind the letters varied. Some comments were being totally irrelevant whilst others contained detailed technical information. The Head of Corporate Financial Strategy added that a lot of work had gone into the report to Cabinet in December 2013 including advice from external consultants. Many of the objections related to this particular decision. Grant Thornton had examined this decision and made no comment which was a positive reflection on the decision made at that meeting

- What was the cost to the Council of the work undertaken by Grant Thornton's in relation to the VFM conclusion? Terry Tobin explained that the cost of their work was anticipated to be approximately £30,000 but the precise amount would be reported to a future meeting
- Useable reserves had been reduced by £10m, was this as a result of funds being withdrawn from the reserves to balance the accounts? The Head of Corporate Financial Strategy commented that the reduction in useable reserves had been the result of planned activities. Helen Lillington added that Grant Thornton had examined the level of reserves as part of the VFM conclusion and found them to be financially resilient, comparing favourably with other councils
- The external auditor's report referred to the Council needing the appropriate skills to manage a variety of contracts as part of its new commission-based operating model. As this was a matter of concern for the Council, what could members do to oversee the procurement process and performance management? Helen Lillington stated that the future operating model of the Council was a key decision which formed part of the VFM conclusion. Grant Thornton had been in conversation with the Chief Executive of the Council to ensure that the new structure for the Council reflected the way in which the commissioning-based operating model had been set up and the need to provide appropriately skilled staff. The Head of Corporate Financial Strategy added that a new position of Director of Commercials and Change had been created in the new structure to oversee this aspect of work. Although all key decisions on commissioning would be taken by Cabinet, the scrutiny committees would have an important role in challenging the commissioning arrangements.

The role of Internal Audit would be reviewed as part of the commissioning process and any decision made would be referred to this Committee

- In response to a query, the Head of Corporate Financial Strategy undertook to provide a clear link between corporate objectives and the reporting of the Council's financial performance by Directorate in future financial statements
- What was the reason for the net actuarial gain on pensions assets and liabilities and the reduction in the deficit of the Pension Fund over the previous financial year? The Head of Corporate Financial Strategy explained that an upturn in the market had meant that the value of assets had increased significantly. In addition, the continual low rate of interest had had an impact on net liabilities. As a result, the Actuary had updated his view on the economic performance of the Pension Fund which was up by 30%. Small variations in the performance of the market had a big impact on the performance of the fund
- What was the basis for the calculation of the compensation to employees for loss of employment? The Head of Corporate Financial Strategy explained that there was a statutory requirement to pay compensation in certain circumstances as part of the employees' terms and conditions. No enhanced payments had been made under these arrangements. There had been a transcription error in the accounts and the figure quoted of £70,000 was incorrect and should read £50,000
- The Committee asked that their appreciation be passed on to the Pensions audit team for their work in completing the Pension Fund Accounts
- The Committee were reminded that they were required to authorise the Director of Resources to sign the Letter of Representation.

**RESOLVED that:**

- a) the Final Accounts Pack including the Statement of Accounts for the financial year ending 31 March 2014 be approved; and**
- b) the Director of Resources be authorised to sign the Letter of Representation on behalf of the Council.**

**304 Annual Governance Statement (Agenda item 6)**

The Committee considered the Annual Governance Statement.

The Accounts and Audit Regulations 2011 required the County Council to conduct a review at least once a year of the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year with the Authority's financial statements. Responsibility for the review and approval of the AGS had been delegated to this Committee.

The purpose of the AGS process was to provide a continuous review of the effectiveness of internal control and risk management systems so as to obtain assurance of their effectiveness.

The Annual Governance Statement confirmed the overall assurance of the Council's systems and had been signed by the Chief Executive and Leader of the Council.

In response to a query in the ensuing debate, the Head of Corporate Financial Strategy explained that the Worcestershire Partnership Executive Group was comprised of Chief Executives of all public sector groups in Worcestershire. The Group considered issues affecting all public sector organisations.

**RESOLVED that the Annual Governance Statement be approved.**

**305 Overview of changes to Risk Management processes (Agenda item 7)**

The Committee considered an overview of changes made to the risk management processes.

The report indicated that the following developments to the risk management process had taken place and were approved by Future Fit Programme Board (FFPB) on 27 May 2014:

- the Corporate Risk Register (CRR) had been reviewed and the number of risks reduced from 24 to 10
- a Transformation Risk Register had been produced which included the 'shared risks' and also the top three transformation risks for each directorate
- the risk register template had been amended to provide opportunity to make the CRR and Transformation Risk Register more dynamic documents
- a rank had been set for each risk. The rank had

been calculated using the information provided by each directorate, and

- an owner had been suggested for each risk. The role of the risk owner was to take responsibility for the risk and to have sufficient authority to ensure that the risk was managed effectively.

The Risk Management Strategy had been reviewed and updated to support the revised approach for the management of both corporate and transformational risks. The strategy included a revised corporate governance structure as well as roles and responsibilities for members, officers and staff throughout the organisation. The strategy was supported by a Guide to Managing Risk which provided information for managers on how to set and manage risk, enabling a consistent approach. The Risk and Business Continuity Manager was currently creating a forward plan for reporting risk management for the next twelve months.

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

- How did the Council determine its risk appetite? The Risk and Business Continuity Manager explained that the overall risk appetite for the Council would be signed off by Cabinet which would occur as part of the reporting process. Before it got to that stage, it was important that officers understood the implications for the Council
- In an organisation that was innovative/trying new things, in other words having an appetite for risk, it should be expected that things might not go to plan
- There were potential for conflicts between different areas of risk to arise, how were these tensions resolved? Risks were managed at Directorate level and periodically each Directorate discussed risk management and potential conflicts. If there were conflicts then the issue would need to be referred elsewhere eg. The Future Fit Programme Board
- Was any account taken of the skills and experience of staff in terms of their willingness to take risks? The Risk and Business Continuity Manager commented that no specific approach to risk-taking had been instigated. However it was important to have the right people in the right posts therefore people's experience/skills in relation to commercial knowledge and contract

**306 Draft Internal  
Audit Annual  
Report 2013/14  
(Agenda item 8)**

expertise was taken into account as part of the evaluation of candidates for posts

- It was proposed that a report be brought to the Committee meeting on 12 December 2014 with further reports being brought on a 6 monthly basis.

**RESOLVED that:**

- a) The changes made to the Council's Risk Registers and the risks that have been identified as a result of the review of risk management be noted;**
- b) The revised Risk Management Strategy and accompanying Guide to Managing Risk, taking note of the proposed governance arrangement be noted; and**
- c) a report be brought to the Committee meeting on 12 December 2014 with further reports being brought on a 6 monthly basis.**

The Committee considered the Internal Audit Progress Report 2013/14.

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

- In the future, it would be beneficial for the Committee to receive more information about those audits that received limited assurance, in particular in relation to disaster recovery procedures. The Senior Manager – Internal Audit and Assurance commented that as the number of projects undertaken by the Council increased, it was important to establish whether the Council was achieving non-financial as well as financial savings. Internal Audit had taken a sample of projects and although the Council was good at achieving financial savings, more work was needed to provide non-financial savings. The savings were also focussed on individual directorates rather than being cross-directorate. There was also a lack of assurance that where projects had been completed, their outcomes were still being measured
- What were the findings/concerns in relation to the audit review of the use of consultants? The Senior Manager – Internal Audit and Assurance commented that Internal Audit had carried out an audit of the use of consultants. The key issue was



whether consultants were being contracted or brought in as an employee. The ongoing monitoring arrangements of contracts for external consultants were reported to the Senior Leadership Team on a regular basis. He would circulate a report on the use of consultants to members of the Committee

- How were the concerns about the contractual and monitoring arrangements for the Joint Commissioning Unit being addressed? The Senior Manager – Internal Audit and Assurance commented that although the Unit had received a Limited Assurance, internal audit were reviewing this complicated area of work to ensure that these arrangements had improved
- Future Internal Audit reports should provide information on how high risk audits were tracked
- The term "Moderate" had been used to determine a level of assurance. Would "significant" be a better term to use? The Senior Manager – Internal Audit and Assurance responded that "Moderate" had been used in previous audits therefore it had been retained to enable clear comparisons with previous years.

**RESOLVED that the Internal Audit Annual Report 2013/14 set out in the Appendix to the report be approved.**

**307 Final Internal Audit Risk Assessment and Operational Plan 2014/15 (Agenda item 9)**

The Committee considered the final Internal Audit Risk Assessment and Operational Plan 2014/15.

There had only been two small changes to the Plan since the last meeting: the omission of specific reference to Systems and Customer Access with regard to ICT audits; and the inclusion of care and support planning.

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

- How did the total of 1,800 proposed audit days for 2014/15 compare with previous years? The Head of Corporate Financial Strategy commented that the number of days had reduced as a result of a reorganisation in the way the Internal Audit function operated. However despite this reduction the service would be more efficient with a better product
- How many audit days had been allocated to data recovery? The Senior Manager – Internal Audit and Assurance commented that 50 days had been

**308 Work Programme (Agenda item 10)**

allocated to work related to ICT audits. PricewaterhouseCoopers would be undertaking 4 specific pieces of work on behalf of Internal Audit in this area.

**RESOLVED that the content of the final Internal Audit Risk Assessment and Operational Plan 2014/15 set out in the Appendix to the report be approved.**

The Committee considered its future work programme.

In the ensuing debate, the Head of Corporate Financial Strategy commented that as part of the Future Fit Programme, the role of Internal Audit would be considered for commissioning. He would report the outcome of the process to the meeting of the Committee in December with a progress report to the meeting in September. He also notified the Committee that he would be taking responsibility for Section 151 duties from 1 July 2014 onwards.

**RESOLVED that:**

- a) the work programme be noted; and**
- b) a progress report on the commissioning of the Internal Audit section be brought to the September 2014 meeting with a final report to the December 2014 meeting.**

The meeting ended at 11.50am

Chairman .....