

Audit and Governance Committee

Thursday, 26 July 2018, County Hall, Worcester - 2.00 pm

Present:**Minutes**

Mr N Desmond (Chairman), Mr R W Banks,
Dr A J Hopkins, Mr L C R Mallett, Mr P Middlebrough,
Mr C Rogers, Mrs E B Tucker and Ms R Vale

Also attended:

Messrs A I Hardman and J H Smith

Available Papers:

The members had before them:

- A. The Agenda papers (previously circulated);
- B. The Minutes of the Meeting Held on 16 March 2018 (previously circulated)

**455 Apologies and
Named
Substitutes**

None.

**456 Declarations of
Interest**

None.

**457 Public
Participation**

None.

**458 Confirmation of
Minutes**

RESOLVED that the Minutes of the meeting held on 16 March 2018 be confirmed as a correct record and signed by the Chairman.

**459 Internal Audit
Annual Report
2017-18**

The Chairman welcomed Michael Hudson, Chief Financial Officer, to his first meeting of the Committee since joining the Council.

Michael introduced the report and referred to the level of moderate assurance being similar to the previous year. He also highlighted the number of overdue recommendations where action had not been completed and indicated he was seeking improved performance in relation to these.

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

- A member queried the nature of Internal Audit's relationship with Audit West, which was the

internal auditor for Liberata, the organisation which provided HR, Payroll and finance transactional services to the Council. Garry Rollason, Head of Internal Audit, responded that Audit West audited Liberata's day to day processes. Internal Audit received the audit reports. Michael Hudson reported that reports had been received recently from Audit West for Payroll, Accounts Payable and HR and these gave overall assurance.

- The Chairman referred to the number of outstanding recommendations in Appendix C to the report and expressed concern that 26 of these were older than 6 months. Michael Hudson reported that he had introduced a quarterly report to Senior Leadership Team about governance issues, including examining Internal Audit assurances and to support the chase process which was driven by Internal Audit. Action was also being taken via monthly meetings between himself, the Chief Executive and Monitoring Officer. Over time the number of outstanding actions should fall and he welcomed the Committee's support for this.

RESOLVED that the Internal Audit Annual Report 2017/18 be endorsed.

**460 External Audit -
Audit Findings
Report**

The Chairman welcomed to the meeting John Gregory, Engagement Lead, and Helen Lillington, Manager, from Grant Thornton, the Council's external auditors.

In introducing the report, Michael Hudson referred to two additional papers which had been circulated to the Committee, setting out adjustments made to the draft accounts since their publication with the agenda. He also paid tribute to all involved in preparing the accounts who had worked tirelessly to meet the deadlines. Whilst he was disappointed that the accounts were not able to be signed off at this meeting, this was not unusual and the deadline for sign-off was 31 July.

Michael highlighted that the main outstanding item related to the valuation of assets and a change in assessment a number of years previously, when market valuation was changed to replacement cost. This had led to the valuation of a number of smaller properties increasing significantly and the implications of this needed to be tested. The working paper on this issue had been prepared for Grant Thornton but was not available for this meeting. He was nonetheless optimistic

that the accounts would be available on time and would be unqualified.

John Gregory from Grant Thornton reported that County Council officers had shown commitment to finalising the accounts whilst dealing with challenging circumstances, including the early statutory deadline. The report circulated to the Committee showed the situation at a point in time and almost all the outstanding issues referred to on page 30 of the agenda had since been resolved.

John highlighted 3 main issues:

- The Council's ability to extract the right information from its finance system – this had led to some additional testing of information
- The patchy quality of working papers – the external auditors had tried to be ruthless in rejecting unfit information
- The values of assets which had not been revalued during the year - as referred to by Michael Hudson a change in the methodology for valuation of properties had led to potential uncertainty about values. More work was being done on this issue.

Michael Hudson acknowledged that a standard format for working papers had not been followed consistently in all cases and whilst some were excellent others fell short of what was required. Council officers were now able to show what good quality looked like and teams were working together so that these should be better for next year.

In considering the report the following were the principal points raised:

- In response to a query about the implications on workload of difficulties in extracting information from the finance system, Michael Hudson reported that the Council had changed its financial system last year after 12 years with its previous system. Differences between the two in the operation of the general ledger had caused difficulties. However, finance officers now understood report generation more clearly and these would be run on a monthly basis in order to be better prepared for the audit in 2019. Jenni Morris, Finance Manager, reported that most of the additional work was caused by the new system drawing on data from the date it had been switched on, rather than

from the last financial year. Any items being taken out as part of the accounts process had to be reconciled.

- A member queried whether the revaluation had an effect on the polices of the Council or on the final balance in the accounts. Michael Hudson responded that the income and expenditure had not been affected by the changes.
- With reference to the External Auditors' view about risk to value for money relating to Children's Services (despite the Council making progress in this area there was evidence of weaknesses in proper arrangements for Children's Services) a member asked whether Grant Thornton's approach differed from other audit organisations. John Gregory responded that he was not aware that it did.
- The External Auditors were also proposing an 'except for' VFM conclusion relating to commissioning. Members sought assurance from officers that lessons learned were being disseminated and questioned the external auditors about the nature of the risks, as the statement in the audit findings report appeared to refer to risks other than financial. John Gregory acknowledged that the high level risks identified in the VFM report included highlighting whether the Council was facing up to reputational risks as a result of events during the year. In terms of commissioning, this was a political decision for the Council but should be implemented properly. Michael Hudson accepted there were lessons to be learned from commissioning and he and the Director (Commercial and Commissioning) were considering next steps in this regard. There was now a sound audit base which would be used to inform future commissioning projects.

RESOLVED

- a) That the Chief Financial Officer be granted delegated authority in consultation with the Chairman of the Committee to make any residual comments on the Accounts as appropriate following the conclusion of any outstanding external audit work, and**
- b) The Chief Financial Officer be authorised to sign the letters of representation on behalf of the County Council.**

461	Annual Governance Statement 2017-18	RESOLVED that the Annual Governance Statement 2017/18 be approved.
462	Annual Statutory Financial Statements for the year ended 31 March 2018	<p>Two sets of adjustments had been circulated to the Committee for the accounts and pension fund.</p> <p>Michael Hudson, Chief Financial Officer, reported that officers had tried to include narrative in the accounts which provided information in an accessible way. A member commented that any such narrative should be balanced.</p> <p>RESOLVED that the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2018, be approved subject to the earlier item being resolved as agreed at minute number 460.</p>
463	HR/Finance System Implementation update	<p>Gerwyn Baker (Director) and Sian Roberts (Contract Director) from Liberata attended the meeting for this item.</p> <p>The Committee considered the HR/Finance systems implementation update report. During the ensuing debate, the following principal points were raised:</p> <ul style="list-style-type: none"> • Whether the product acquired by the Council was fit for the Council's needs and whether it should have been subject to additional testing. Gerwyn Baker (Liberata) responded that the E5 module was fit for purpose and was used by other organisations. Lessons had been learned following implementation at the County Council and in schools, the service was more stable than this time last year and was due to be consolidated further. • Measures taken to recompense the County Council – Gerwyn Baker reported that a rebate had been made by Liberata to schools and it had funded the costs of corrective action to problems found in 2017 at no cost to the County Council. Michael Hudson confirmed that performance was discussed regularly with Liberata; if it failed in its KPI's appropriate amounts were deducted from invoices. • In response to a question Gerwyn Baker confirmed that there had been one occasion in the last year when out of pocket costs such as bank charges had been reimbursed to an employee due

to a delay with their salary payment.

- The Chairman queried potential reasons for the amount of underpayments referred to in the report and suggested this may be due to the system being too complicated or a lack of training. Gerwyn Baker acknowledged that the 'go live' could have been handled better and the e-learning approach adopted at that time was inappropriate. Action had been taken to address this and an extensive programme of training had been carried out.
- A member suggested that the report did not reflect the scale of the impact of the issues on service users. In response Sian Roberts (Liberata) reported that it had been a difficult time for the Liberata team too and that it had taken some time for the reporting element of the system to be signed off. The main focus had been on accurate and timely payments.
- A member urged officers to continue to discuss costs incurred by the County Council in consequential issues such as reconciliation and Michael Hudson confirmed that this was being done.
- In response to a question Sian Roberts reported that the main payment delays arose from purchasing goods and services where goods received notices were not issued in a timely way. Liberata were working with the Council's procurement team to address the relevant issues.

The Committee requested a further update report be provided and Michael Hudson confirmed that officers would bring the Finance Improvement Programme to the next meeting of the Committee.

RESOLVED

- a) That the report be noted**
- b) That the Committee receive a further update at its next meeting on the Finance Improvement Programme.**

464 Internal Audit - External Quality Assessment

The Committee considered the report outlining the outcome of an External Quality Assessment of the Council's internal audit service.

RESOLVED that the outcome of the external quality assessment of the Council's internal audit

		service be noted.
465	Internal Audit Plan 2018/19	RESOLVED that the Internal Audit Plan 2018/19 be endorsed.
466	Member Development	<p>Further to comments at its last meeting, the Committee considered proposals for providing appropriate knowledge and skills training for members.</p> <p>Members suggested that an initial half-day session would be appropriate, to be held during October. Michael Hudson reported that it might be possible to hold on-line training events with audience participation enabled remotely. It was agreed that this possibility should also be explored in addition to the half day event to be held at County Hall.</p> <p>RESOLVED</p> <ul style="list-style-type: none"> a) That a half day training event for members of the Audit and Governance Committee be arranged for a date in October. b) That officers explore the potential for participative on-line seminars for further training sessions.
467	Work Programme	RESOLVED that the work programme be agreed.
468	Commissioning	<p>Prior to consideration of this item a member challenged the proposal that certain information relating to the report had been provided to the Committee as exempt information. He suggested that it was in the public interest for the information to be considered with the public and press present.</p> <p>The Chairman requested advice from the Monitoring Officer. He explained that the Access to Information Rules enabled him to exclude access by the public to the whole or part of a report which he considered were subject to exclusion in accordance with certain categories of exempt information, as set out in the constitution. One of these categories was 'information relating to the financial or business affairs of any particular person' and the document issued to Committee members had not been published in advance of the meeting because in his view that there were a number of items where such information would be revealed. If the Committee wished to do so it could resolve to go into 'exempt session' and</p>

exclude the public and press, having considered whether the public interest was better met by discussing in public or not. A minority of Council business was carried out in exempt session and sometimes it was handled by having a hybrid approach to the information where a public report was issued, as in this case, with the exempt information as a separate appendix.

Having considered the advice of the Monitoring Officer the Committee agreed that the exempt part of the report should remain so and not be made available to the public. However the Committee's debate of the report was held in public.

The report had been produced in response to the Committee's request for information about the Evesham Abbey Bridge and Bromsgrove Railway Station projects. Officers had expanded on this to include other items which had emerged from audit reports.

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

- For the capital schemes, whether there was a skills gap in the relevant department. John Hobbs, Director of Economy and Infrastructure, responded that following a period where there had been few capital schemes, there had been an increase in large scale projects in recent years. For a transitional period there had been a lack of capacity in supporting these but the current head of service was appropriately qualified and staffing for this was now significantly different. He was confident that the department now 'had a grip' on dealing with capital projects.
- Whether lessons learned from the Abbey Bridge and Bromsgrove railway station projects had been shared effectively. John Hobbs responded that he had sought audits of both schemes to learn from them to prevent any repeat of errors and his concern was specifically about major capital projects which his department delivered. Abbey Bridge had been an innovative design and build project which had been difficult to assess at tender stage. He did not consider that issues encountered during this project nor Bromsgrove railway station were systematic. Members suggested that future project management should include commercial, finance and legal expertise from across the Council to support clear governance of capital schemes.

- Committee members also referred to comments in the external auditors' report which indicated that the way commissioning had been approached was a risk for achieving value for money for the Council. The view was expressed that whilst learning corporately from capital projects was necessary, issues raised in the auditors' report referred to corporate issues and there was a distinction between commissioning capital/infrastructure projects and services. However, it was also suggested that governance, pricing and contract management were common themes to both types of commissioning.
- Helen Lillington, Grant Thornton, explained that the external auditors considered commissioning from a high level corporate perspective. Whilst there had been successes at the County Council, it had not been clear why other initiatives had not succeeded. It was important that arrangements were clear and that the lessons learned from successful commissioning were shared as good practice. In all commercial contracts there was an element of risk and this should be balanced against the price as part of governance of commissioning a project.
- Some members expressed the view that the reputational risk to the Council of unsuccessful commissioning should be part of the consideration of projects. Michael Hudson reported that lessons learned from the implementation of Babcock and Liberata contracts were being applied to the current live procurement of a replacement software package used for recording care packages and reputational risk was part of that.

RESOLVED that the issues arising from internal audits on commissioning are noted.

The meeting ended at 5.25 pm

Chairman