

Audit and Governance Committee

Friday, 21 September 2018, County Hall, Worcester - 10.00 am

		Minutes
Present:		Mr N Desmond (Chairman), Mr R W Banks, Dr A J Hopkins, Mr P Middlebrough, Mr C Rogers and Mrs E B Tucker
Available papers		The Members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meeting held on 26 July 2018 (previously circulated).
469	Apologies and Named Substitutes (Agenda item 1)	Apologies were received from Mr L C R Mallett and Ms R Vale.
470	Declarations of Interest (Agenda item 2)	None.
471	Public Participation (Agenda item 3)	None.
472	Confirmation of Minutes (Agenda item 4)	RESOLVED that the Minutes of the meeting held on 26 July 2018 be confirmed as a correct record and signed by the Chairman.
473	Annual Audit Letter 2017/18 (Agenda item 5)	The Committee considered the Annual Audit Letter 2017/18. Helen Lillington, a Manager from Grant Thornton, the Council's external auditor introduced the report and commented that the Statement of Accounts for the County Council and the Pension Fund had received an unqualified opinion. However, risks had been identified in relation to Children's Services and Commissioning and as a result an except for VFM conclusion had been issued. The work on the Whole of Audit Accounts had now been concluded and the audit had been closed at

the end of August. She highlighted the additional fees necessary to cover the extra audit work in relation to the Council and Pension Fund Accounts.

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

- In response to a concern about the VFM conclusion in relation to commissioning, Helen Lillington commented that the Council had failed to consider the potential disadvantages of providing services outside the Council in reports to members. There was a lot of information on the advantages but not on what could go wrong or whether members were content to accept that things could go wrong
- Did the failure to report the disadvantages of commissioning reflect a general lack of cognisance of the associated risks throughout the organisation? Helen Lillington responded that there was an understanding within the organisation of risk but it was not well reported or articulated to be able to demonstrate that this was the case
- Andrew Spice, the Director of Commercial and Change stated that processes had improved since these historical reports had been considered by Cabinet. The comments from the external auditor had been taken on board to further improve processes going forward. The Council had good contract management arrangements but it was important to have the appropriate support mechanisms in place. A Commissioning Board had been introduced to provide ongoing support and focus to the procurement process
- In response to a query, Andrew Spice considered that there would be an enhanced role for scrutiny in the commissioning process given that structures were now in place with better support mechanisms and relevant data collection
- Some risks were not obvious to members and there was a sense that members were only being provided with the information they wanted to hear because of the drive towards making savings
- It was important when considering commissioning arrangements that this Committee differentiated between the commissioning of service provision as opposed to individual capital projects which had its own element of calculated risk analysis
- Was there a link between the lack of risk awareness in the commissioning process and the

failure of previously outsourced services to realise the anticipated savings? Andrew Spice responded that a good commissioning exercise should properly assess the risks associated with a project and a structure should be in place to manage those risks and therefore the value of the project

- It was requested that officers look into the possibility of adding risk as a standard element of the format of Cabinet reports
- In terms of closing the Statement of Accounts on time, how did this Council fare compared to other councils and how many councils had failed to meet the deadline? Helen Lillington responded that at 1 August, 4 of her clients in the midlands had failed to meet the deadline. This Council sat with the majority of councils who had met the deadline. Nationally around 35-40% had failed. The PSAA had expected that a percentage of councils would fail and therefore would only be reporting those councils that failed to close their accounts by the end of September
- As a result of the difficulties experienced with Carillion, the Council should have timely access to the financial standing of those organisations who were the subject of a procurement exercise
- Was the involvement by AuditWest, the auditors to the Council's contractor, Liberata at the request of the Council or the external auditor? Helen Lillington explained the Grant Thornton had highlighted this as something missing from the control environment for the financial system. Michael Hudson, the Chief Financial Officer added that direct contact had been made with AuditWest which had speeded up the audit process
- In response to a query, Helen Lillington explained that an except for conclusion had been issued for commissioning because although the Council was aware of the associated risks, there remained a further risk, particularly with new chief officers being appointed, that lessons from the implementation of major contracts were not being appropriately disseminated to all officers and commissioning departments did not have the necessary skills and expertise to secure the best outcomes for the users of the service.

RESOLVED: that

- a) The Annual Audit Letter 2017/18 be noted;**
- b) The Independent Auditor's Report opinion on**

the Financial Statements be noted; and

c) The External Auditor's closure of the audit of the Worcestershire County Council and Pension Fund Accounts Letter be noted

474 Statutory Accounts 2017/18 - Lessons learned (Agenda item 6)

The Committee considered the Statutory Accounts 2017-18 – Lessons Learned report.

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

- Had the risks associated with expertise resting with a limited number of individuals been assessed? Michael Hudson responded that staff were being moved between roles to ensure that expertise was shared. On the job training was being provided for staff, in addition to their day jobs
- Michael Hudson explained that a more detailed timetable would be presented to the Committee meeting in December outlining the resources and risk implications.

RESOLVED: that the report be noted and recommended actions endorsed.

475 Update on Finance Improvement Programme (Agenda item 7)

The Committee considered the update on the Finance Improvement Programme (FIP).

In the ensuing debate the following principal points were raised:

- The progress made in improving the Council's control environment through the FIP was welcomed. It was queried how the Senior Leadership Team (SLT) had been engaged in the process. Michael Hudson explained that the FIP was in the early stages of being rolled out across the organisation. SLT and wider SLT had been consulted and it was acknowledged that the systems for making payments needed to be overhauled. A dedicated team would be established to work with directorates on the FIP. There was a clear understanding that this review would feed into the future organisational shape
- The report was an honest assessment of the organisation as a whole. It was clear that irrespective of the type of software system introduced, fundamental control issues existed within the Council that needed to be addressed

- Would there be a reduction to the workforce in general or specifically to the Finance team as a result of this programme and if so, had the number of redundancies been determined? Michael Hudson responded that the programme would determine the shape of the Council going forward. No set level of redundancy level had been determined. There would be an impact on the Finance Team but any staff reductions would be achieved by no longer keeping vacant posts open. This was an important task that would provide assurance and shape the organisation over the next 5 years. It was therefore important to get the programme right from the outset.

RESOLVED that the report be noted and that a further update be brought to the next Committee.

476 Internal Audit Provision update (Agenda item 8)

The Committee considered the update on the Internal Audit Provision.

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

- Was the Chief Financial Officer confident that the proposed savings from transferring the service in-house would materialise? Michael Hudson commented that there would be cost savings because an opportunity would be provided for Internal Audit to work closely with other in-house services. This could not be achieved through the current partnership arrangement
- Would there be scope for joint-working with district councils? Michael Hudson indicated that Internal Audit had worked well within the existing partnership arrangement and a good working relationship had been established with Warwickshire County Council. In the future, Internal Audit would have an important role in overseeing the change programme internally. It was not possible to say at this stage whether any further partnership working was possible in the future.

RESOLVED that the update on the position of Internal Audit services transferring back in-house be noted, and that progress updates be received at future meetings.

477 Update on

The Committee considered the update on

Commissioning (Agenda item 9)

Commissioning.

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

- How could the Council ensure that it had the right skill set throughout the organisation to strengthen the commissioning arrangements? Andrew Spice commented that it was important to examine control mechanisms in the right sequence as it was impossible to review them all at once. The Commercial and Commissioning Board would provide that focus. Different skills sets were required for different procurement exercises and staff need to be appropriately trained going forward
- In response to a query, Andrew Spice advised that it was possible that the occasional commissioning exercise would be sufficiently large and complex with numerous contracts that might necessitate the deployment additional resources
- In response to a query, Andrew Spice explained that every contract would be examined to ensure that it was necessary and that every element of that contract was appropriate for the Council's requirements. In addition where a contract was due to be renewed, a decision should be made whether the contact had reached the end of its useful life. The Commercial and Commissioning Board would have an important role in these decisions
- How would the decision be made that a contract was a luxury rather than a necessity? Andrew Spice responded that in the first instance, a decision needed to be made as to which functions were statutory and which were not. It was not always clear and therefore the Council needed to carefully examine each contract to establish its legal obligations.

RESOLVED that the report be noted and that a further update be brought to the next Committee meeting.

478 Corporate Risk Report (Agenda item 10)

The Committee considered the Corporate Risk Report.

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

- The Committee needed to be cognisant of the red risks and what interventions could be considered

to prevent them continuing to be red going forward. Andrew Spice agreed to consider ways of reporting risk so that the Committee could consider future impact.

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

479 Counter Fraud Report 2017/18 (Agenda item 11)

The Committee considered the Counter-Fraud Report 2017/18.

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

- Garry Rollason explained that the Council had experienced a small number of ad hoc frauds but no consistent themes had been established and no noticeable pinch points
- The Chairman welcomed the fact that the Council experienced very low incidents of fraud.

RESOLVED that the Counter Fraud Report 2017/18 be noted.

480 Internal Audit Progress Report 26 July to 31 August 2018 (Agenda item 12)

The Committee considered the Internal Audit Progress Report 26 July to 31 August 2018.

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

- Garry Rollason explained that there remained a lot of work outstanding from last year and it was increasingly difficult to get responses from managers to draft reports. In addition, it was noticeable that the number of managers responding was quite limited despite reminders from the Internal Audit team and the Chief Financial Officer
- It was disappointing to hear that there was a lack of response from managers, particularly the number of outstanding audits over 6 months old. How could this issue be resolved? Michael Hudson indicated that the outstanding audits would be reported to SLT and the disappointing response from managers highlighted. It should be noted that the August holiday period had had an impact on the poor response. In some cases, an assessment might be necessary to determine whether the audit work was still necessary. He

welcomed the support of the Committee in his approach to SLT.

RESOLVED that the Internal Audit Progress Report attached as an Appendix to the report be noted.

481 Work programme (Agenda item 13)

The Committee considered its work programme.

In the ensuing debate, Members were reminded about the training event on 5 October at 1pm at County Hall, Worcester which would be web cast for those councillors unable to attend in person.

RESOLVED that the work programme be noted.

The meeting ended at 11.45am.

Chairman