

Agenda

Audit and Governance Committee

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

This document can be made available in other formats (large print, audio tape, computer disk and Braille) on request from Democratic Services on telephone number 01905 728713 or by emailing democraticServices@worcestershire.gov.uk

DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests** **OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Audit and Governance Committee

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

Membership: 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

Agenda

Item No	Subject	Page No
1	Apologies and Named Substitutes	
2	Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Head of Legal and Democratic Services in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case, 20 September 2018). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	Confirmation of Minutes To confirm the Minutes of the meeting held on 26 July 2018. (previously circulated – pink pages)	
5	Annual Audit Letter 2017/18	1 - 28
6	Statutory Accounts 2017/18 - Lessons learned	29 - 32
7	Update on Finance Improvement Programme	33 - 38
8	Internal Audit Provision update	39 - 46
9	Update on Commissioning	47 - 68
10	Corporate Risk Report	69 - 80
11	Counter Fraud Report 2017/18	81 - 90
12	Internal Audit Progress Report 26 July to 31 August 2018	91 - 104
13	Work programme	105 - 106

Agenda produced and published by Simon Mallinson, Head of Legal and Democratic Services, County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 12 September 2018

Item No	Subject	Page No
----------------	----------------	----------------

AUDIT AND GOVERNANCE COMMITTEE
21 SEPTEMBER 2018**ANNUAL AUDIT LETTER 2017/18**

Recommendation

- 1. The Chief Financial Officer recommends that:**
 - a) The Annual Audit Letter 2017/18 be noted;**
 - b) The Independent Auditor's Report opinion on the Financial Statements be noted;**
 - c) The External Auditor's closure of the audit of the Worcestershire County Council and Pension Fund Accounts Letter be noted;**
 - d) The Committee considers whether it wishes to receive any further reports on information contained in the Letter; and**
 - e) The Committee considers whether there are any issues arising from the Letter to draw to the attention of the Council.**

Summary

2. Grant Thornton is responsible for producing an Annual Audit Letter which brings together all aspects of external inspection work undertaken across the County Council including the audit work carried out on the accounts. The Annual Audit Letter looks back over the year and summarises all of the reports and work the external auditors have undertaken and closes that years audit. As such there are no new audit findings.

3. The one point to note is that the Annual Audit Letter includes the fee for the audits. Following the audit of the statement of accounts the proposal is for an additional fee of £33,385 (£28,185 for the County Council and £5,200 for Worcestershire Pension Fund) to cover the extra work that was needed to be performed, and discussed at the last Committee. Management accept this and will fund from vacancies, but there is a separate report on the same agenda as this paper as to how this will be sought to be mitigated and avoided in future years.

4. Representatives from Grant Thornton will attend the meeting to discuss the findings. A copy of the Letter is attached as Appendix 1.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix 1 – The Annual Audit Letter for Worcestershire County Council
- Appendix 2 – Independent Auditor's Report – Financial Statements
- Appendix 3 – External Auditor's Letter – Closure of the audit of the Worcestershire County Council and Pension Fund Accounts

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.



Annual Audit Letter

Year ending 31 March 2018

Worcestershire County Council

August 2018

Page 3



Contents



Your key Grant Thornton team members are:

John Gregory

Engagement lead

T: +44 121 232 5333

E: john.Gregory@uk.gt.com

Helen Lillington

Manager

T: +44 121 232 5312

E: helen.m.Lillington@uk.gt.com

Kathryn Kenderdine

Executive

T: +44 121 232 5316

E: Kathryn.a.Kenderdine@uk.gt.com

Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

Page

- 3
5
12

Appendices

- A Reports issued and fees
- B Recommendations

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Worcestershire County Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 26 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £15.232m, which is 2% of the Council's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £24.8m, which is 1% of the pension fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018. We gave an unqualified opinion on the pension fund accounts of Worcestershire Pension Fund on 31 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the matters we identified in respect of Children's Services and Commissioning. We therefore qualified our value for money conclusion in our audit report to the Council on 31 July 2018.
Certificate	We certify that we have completed the audit of the accounts of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An audit delivered by the statutory deadline – we delivered the audit by working hard in partnership with your team to tackle the issues identified, particularly those arising from the implementation of the new financial system.
- Improved financial processes – we worked with you to identify areas where processes could be improved for future years, in particular the necessary reporting from the financial system and the working papers needed to support revaluations.
- Sharing our insight – we regularly attended Audit and Governance Committee and shared our experiences. We also shared our thought leadership reports including those on setting up local authority companies.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £15.232m, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £0.1m.

We set a lower threshold of £0.761m, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

Pension Fund Materiality

For the audit of the Worcestershire Pension Fund accounts, we determined materiality to be £24.8 million, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for related party transactions. We set a threshold of £1.2m above which we reported errors to the Audit and Governance Committee.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement and Annual Report published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable 	<p>We do not consider this to be a significant risk for Worcestershire County Council</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness, – Evaluated the rationale for changes in accounting policies, – reviewed journal entries and performed testing on large and unusual entries, – reviewed unusual significant transactions; and – reviewed significant related party transactions outside the normal course of business 	<p>One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to our testing in this area is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It was necessary to consider a number of different ways to achieve this, however after working with finance officers a solution was eventually found. Testing of the journal entries did not in the event identify any issues.</p>

Audit of the Accounts

Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on an five year rolling programme basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our work in the area we have;</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work, • reviewed the competence, expertise and objectivity of any management experts used, • reviewed the basis on which the valuation was carried out and challenged key assumptions, • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding, • tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Officers had not undertaken work to demonstrate that the value of assets not formally valued in year was not materially misstated as part of the preparation of the financial statements. This is a key requirement of the Code, and one which we had already raised clearly in the previous year's audit.</p> <p>Initial audit work in this area demonstrated that while a significant proportion of the asset base of the Council had been revalued (79%), there remained a potential material uncertainty of £33m in the value of the assets that had not been revalued in year.</p> <p>As a result, we agreed with officers that further revaluations would be undertaken to ensure that the valuations within the accounts were materially fairly stated. This work has led to a number of adjustments to the financial statements, including a revision to the net book value of assets of £25.2m.</p> <p>As part of reviewing the work of the valuer we identified that the valuer had not, in certain respects, carried out the work exactly in line with the instructions given by the Council. Upon further challenge, the reason for this was that the asset records used by the valuer were incorrect, with one asset valued at £8m being incorrectly classified as a secondary school, when it should have been classed as an office building. This has not impacted on the valuation within the accounts, but does reinforce the need for officers to appropriately challenge the work of external experts and the asset records held.</p>

Audit of the Accounts

Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement, reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation, gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our work did not identify any issues to report.</p>
<p>New Financial System Implementation The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements.</p> <p>We identified the implementation of the new financial system as a risk requiring special audit consideration.</p>	<p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved, completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances, reviewed the control account and bank reconciliations to ensure that appropriate financial control was maintained throughout the period; and reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers. 	<p>The implementation of the new financial system has presented the finance team with significant challenges in terms of preparation of the financial statements. There have been problems experienced with the reporting of the journal populations, and there were delays in the completion the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.</p> <p>The area that has had the biggest impact on the impact on the audit is the reporting functions within the finance system. Officers have found it difficult to produce detailed transactions listings for balances within the accounts, which in a number of instances has resulted in the audit team having to test more transactions.</p>

Audit of the Accounts

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under IS 240 (UK) here is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is o risk of material misstatement due to fraud relating to revenue recognition</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition, • opportunities to manipulate revenue recognition are very limited, • the culture and ethical frameworks of local authorities, including Worcestershire County Council Pension Fund, mean that all forms of fraud are seen as unacceptable. 	<p>We do not consider this to be a significant risk for Worcestershire County Council Pension Fund.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness, – Obtained a full listing of journal entries, – Identified and tested unusual journal entries for appropriateness – Evaluated the rationale for changes in accounting policies or significant unusual transactions, and – reviewed significant related party transactions outside the normal course of business 	<p>One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to this test, is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It was necessary to consider a number of different ways to achieve this, however after working with finance officers a solution was found. Testing of the journal entries did not identify any issues.</p>

Audit of the Accounts

Pension Fund Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the Fund’s process for valuing level 3 investments and evaluated the design of associated controls; – Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; – Considered the competence, expertise and objectivity of any management experts used; – Reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and – For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that data. We have reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>New Financial System Implementation</p> <p>The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements.</p> <p>We identified the implementation of the new financial system as a risk requiring special audit consideration.</p>	<p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> • reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved, • completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances, • reviewed the control account and bank reconciliations to ensure that appropriate financial control was maintained throughout the period; and • reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers. 	<p>Given the more ‘contained’ nature of the pension fund, and the reliance on information from third parties for a significant proportion of the data needed to produce the financial statements, the impact of the new financial system on the pension fund has not been as great as for the Council financial statements. As for the County Council, there have been problems experienced with the reporting of the journal population, and there were delays in the completion of the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in line with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided working papers to support them. The finance team responded to our queries during the course of the audit.

While there is evidence that members of the finance team have worked hard to mitigate the impact that the new financial system has had on the accounts production process, it has presented significant challenges to both the finance team and the audit team. In previous years, finance officers were able to run detailed transaction listings directly from the ledger. This enabled members of the finance team to have a clear understanding of the transactions in each balance and for the audit team to test transactions in an efficient way. While transaction listings were produced, this was often a time consuming process, or led to the need for the audit team to test additional transactions to gain the required level of assurance. The process was also made more complicated as a result of the finance team needing to work with the provider of the financial system, as this function had been outsourced to the third party provider.

Our interim reporting to members highlighted that some improvements had been made to working papers from the prior year, and this continued to some extent during the final accounts visit. There remain areas that still require substantial improvement to enable the audit visit to be completed efficiently and in line with the timescales set out. In particular, improved working papers are required when providing evidence for transaction testing. Officers are aware of the key improvements required for future years and we will continue to work with them to ensure a smoother closedown and audit process.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 26 July 2018 and followed this up with an update letter on 31 July 2018 confirming changes made since the Committee meeting.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 28 August 2018.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Worcestershire Pension Fund on 31 July 2018.

We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Governance Committee on 26 July 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had to use our additional powers under the Act for the current financial year.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice. We certified the audit as completed on 28 August 2018, following the completion of both our work on WGA and the pension fund annual report.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in 26 July 2018, we agreed recommendations to address our findings. We noted that the Council has a detailed action plan to respond to the Ofsted report, which continues to be monitored through a variety of mechanisms. Similarly a written response is required following the SEND inspection, which again will be monitored in due course, and therefore we have not made detailed recommendations in respect of these risks.

Similarly we have discussed our findings in relation to Commissioning with both the s151 officer and Chief Executive and understand that this is an area of focus for both of them in the current year, and therefore we have not made detailed recommendations in this area.

The financial environment faced by the authority remains challenging and as a result we have made the following recommendation;

- Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matters we identified in respect of Children's Services and Commissioning, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Children's Services</p> <ul style="list-style-type: none"> Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017 We will review the Council's response to the report and the progress made, including the plans for an Alternative Delivery Model 	<ul style="list-style-type: none"> The Council have continued to work hard to implement the service improvement plan agreed with Ofsted. During the period under review there have been four separate monitoring visits by Ofsted. The outcome of the most recent was published in May 2018. This report concluded that the local authority is making progress in improving services for children and young people. Essex County Council were appointed as an improvement partner to the Council. Working in partnership they have undertaken a number of diagnostic visits. Their most recent report in February 2018 recognised the hard work that the Council had undertaken and the positive commitment from all levels. It also went on to highlight that there remains a significant number of areas where improvement is needed. On 19 September 2017 the Council were issued with a direction which required them to develop an options analysis for alternative models for provision of children's services. Following a full business case, the Council have approved the implementation of a wholly owned Council Company for the provision of Children's services, with an anticipated go-live date of 1 April 2019. In addition to the Ofsted visits for Children's Services, the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities (SEND). The outcome of the inspection was to require a written statement of action because of significant areas of weakness in the local area's practice. The Council is now working with NHS Worcestershire Clinical Commissioning Groups to produce and submit an action plan to Ofsted that details how they are going to improve the arrangements and address the weaknesses identified. 	<p>While the Council is making progress in this area there still remains evidence of weaknesses in proper arrangements for Children's Services, and therefore we have issued an except for VFM conclusion.</p>

Value for Money conclusion continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability of the Council</p> <ul style="list-style-type: none"> The budget position for the Council in the medium term remains challenging with a funding gap of £23m identified in the next 3 years. This is in addition to savings already planned in 2018/19 of £31.6m <p>We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<ul style="list-style-type: none"> Historically the Council has a strong track record of meeting its financial targets, and this has continued in 2017/18 with a small surplus being delivered. The Council continues to actively monitor its budget and understand the cost pressures, which continue to be the demand led services for both adults and children. The overspends reported in these services are £6m for adults and £8.3m for children's services and reflect the increased demand for services, but also the complexity of the care required. These overspends have been mitigated by the use of reserves and a number of one off measures, such as reviewing the policy on capitalisation of highways expenditures, reviewing the approach to the Minimum Revenue Provision and using surplus cash to fund a pre-payment on pension contributions in exchange for a discount. The 2017/18 budget included a savings target of £26.5m, £5.2m of which would be met from a planned use of reserves. Taking this into account and then adding unachieved savings from previous years the actual target for the year was £27.9m. The Council achieved savings of £19.1m, which equates to 68% of the target. This is a further deterioration from the savings achieved in prior years, with the Council achieving 74% of its savings target in 2016/17. The Council recognise that savings are becoming more difficult to achieve, and in July 2017 commissioned a review by CIPFA of their financial planning and sustainability. The key finding from the review was to challenge the achievability of savings plans. As a result a central review was undertaken by the finance team of the savings plans agreed and £6.1m of savings plans were effectively written off as unachievable, adding to the level of savings needed in 2018/19 and beyond. The s151 officer has assessed the level of reserves as appropriate as part of the most recent budget setting round. At year end, the general fund balance sits at £12.2m. Excluding this general fund balance the Council also has £84.4m of earmarked reserves. Removing earmarked reserves relating to schools and the public health grant leaves a balance of £64m. While these are set aside for specific purposes, they could be used in the short term to help balance the budget. This £64m equates to almost double the saving target for 2018/19 and is 20% of net expenditure for the Council. The 2018/19 budget includes a savings target of £31.6m. £15.4m of this savings plan related to accounting adjustments and alternative sources of funding and is therefore considered achievable. £9.7m related to existing reforms and the remaining £6.5m are new proposals which remain subject to review and challenge. Like many other similar local authorities, the financial outlook remains challenging. In addition to savings of £31.6m in 2018/19, further savings of £19.6m in 2019/20 and £14m in 2020/21 are needed to achieve a balanced budget. For 2018/19 plans are in place for achieving the target, with work advancing on how savings could be achieved in future years. In recent years the Council has been able to compensate for non-achievement of savings targets through use of reserves and various one off measures. This is not a sustainable position. Difficult decisions will be needed going forward to ensure that the Council is able to meet its objectives and balance the budget. 	<p>While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.</p>

Value for Money conclusion continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The ability to produce accurate and timely financial reporting</p> <ul style="list-style-type: none"> The Council implemented a new financial system via an outsourced provider in April 2017. The implementation did not go to plan which impacted on the production and completion of the financial statements for 2016/17. We will review the arrangements for budget reporting in 2017/18 and the impact that the implementation of the financial system had on these arrangements. We will also consider the arrangements in place for the timely production of the 2017/18 financial statements. 	<ul style="list-style-type: none"> It has been well documented that the implementation of the new financial system has created challenges across the Council. In particular there have been errors made in both payments to suppliers and in payments to staff. Officers reacted promptly to these issues, and there is no evidence of material loss to the Council as a result of the errors made, however as discussed on previous occasions this has resulted in officers' time being diverted from other key tasks, such as the preparation of the financial statements for 2016/17. We have reviewed the impact that the new financial system has had on the Council's ability to monitor its budget and ensure that a sound control environment remained in place. Overall, at a strategic level, arrangements for monitoring and reporting on budgets were unaffected by the problems with the implementation of the new system. There is clear evidence that on more detailed level, budget holders, particularly schools, struggled with the new system and how best to obtain the information that they had previously relied on. Again this has been recognised by the Council, with alternative arrangements being put in place in the short term, while longer term solutions of further training and support are implemented. A key aspect of the control environment in relation to the new financial system are reconciliations between the ledger and the other sub systems, in particular the bank reconciliation. There were delays in these reconciliations on inception of the new system, with the bank reconciliation for April 2017 not being completed in July 2017. There is evidence that this improved during the year, with key reconciliations being completed for the year end preparation of the financial statements. A further aspect of the control environment is the assurance given by internal audit. As anticipated the implementation of a new financial system was a key focus for the internal audit plan for 2017/18, with eight reviews scheduled. In addition to the work planned by the County Council's internal auditors, work was also scheduled by AuditWest, as the auditors of the Council's contractors, Liberata. As at the end of May, only one final report had been issued by Internal Audit, and there had been no reporting by the auditors of Liberata. While work has remained ongoing, this has resulted in a reduced level of assurance being provided than anticipated on the operation of the new financial system in the current financial year. As highlighted elsewhere in this AFR, the Council were able to produce financial statements for 2017/18 in line with their timetable for publication and draft accounts were provided for audit as anticipated. The new system has created some difficulties in terms of reporting, particularly understanding how information is presented and can be used. This has caused delays in the audit process, and in some areas created additional testing, the details of which are included as part of the earlier part of this report to avoid duplication. 	<p>The Council has appropriate arrangements in place to produce accurate and timely financial reporting. There remain areas where improvements can be made in future years.</p>

Value for Money conclusion continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Commissioning arrangements</p> <ul style="list-style-type: none"> The Council has outsourced a number of its key contracts during the last 12 months We will review the arrangements for outsourcing these contracts, and how they have been managed and monitored. 	<ul style="list-style-type: none"> The Council have embraced the idea to be a commissioning Council, with over 75% of its services provided externally to the Council. In recent years a number of major contracts have been let, some of which have encountered severe delays and or disruption to services and members of the public. We considered the arrangements in place around these contracts, in particular, the Evesham Abbey Bridge replacement, Malvern Link Railway project, Bromsgrove Railway project, the Learning and Achievement contract with Babcock and the HR and Financial Services contract with Liberata. As these related to major contracts, the commissioning process has, not unexpectedly, spanned a number of years. In that time, the arrangements at the Council have changed, with the introduction of a Commissioning Toolkit, and a more centralised commissioning function. The introduction of the centralised commissioning function was as a result of the need to bring greater expertise and experience into this area and support the service departments commissioning the services. These arrangements have been developing during the period under which these contracts were let. In all but one of the contracts reviewed, Council officers have undertaken a review of the issues encountered during the procurement, often resulting in a 'lessons learned report' or limited assurance report from internal audit. These reports do not identify one persistent theme, or weakness in the arrangements. Instead they point to areas where contractors' assumptions could have been more robustly challenged, or where greater experience from the commissioning department could have led to better initial contract management. For the contracts we examined, the key driver for putting them out to tender was to fit with the agreed corporate objective to become a commissioning Council. As a result the potential disadvantages of providing these services from outside of the Council was not considered in reports to members. This remains consistent with our previous reporting on commissioning arrangements in 2014/15, where we highlighted that reports to members on the new operating model focused heavily on the potential advantages and savings that could be possible, but provided limited discussion on the risks and disadvantages. In all cases, the Council have acted positively and proactively to support the commissioning department, putting in extra resource to help rectify problems and minimise service disruption and delivery. This should however be the exception rather than the rule. While there is training available and guidance on the Council's intranet, the responsibility for the Commissioning of services lies with the individual service. There is no clear evidence that the lessons learned from major contracts are being considered and included in the appropriate training for officers engaged in procurement activity and as a result there remains a risk that further issues could be encountered with other major contracts. 	<p>While the Council is making progress in the area of commissioning there remains a risk that lessons learned from the implementation of major contracts are not being appropriately disseminated to all officers. There is a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for the users of the service. As a result we have issued an except for VFM conclusion.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	95,446	123,631	130,518
Audit of Pension Fund	24,963	30,163	24,963
IAS 19 Assurance to other auditors	1,193	1,193	1,193
Total fees	121,602	154,987	156,674

The fee variation for IAS 19 takes account of the work we are required to undertake for admitted bodies within the PSAA regime.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

The assumptions within the audit plan assumes that draft financial statements and working papers are provided at the agreed date in accordance with the agreed upon information required list. As previously highlighted we have needed to undertake additional work as a result of the challenges of the reporting from the new financial system, and as a result of the quality of the working papers initially provided. We have also encountered significant issues with the valuations of property, plant and equipment, which has resulted in additional time needed to complete the audit. We have discussed an additional fee with the Chief Finance Officer, and this has been included within the actual fees column above. This is subject to agreement from PSAA.

Fees for non-audit services

Service	Fees £
Audit related services	
- TPA certification (2017/18)	4,200
Non-Audit related services	
- CFO insights subscription	12,500

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

B. Action plan

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	The reporting output from the new financial system should be reviewed and tested to ensure that the appropriate information can be obtained to produce the financial statements in a more timely and efficient manner.	<p>Officers need to continue to work to understand the reporting mechanisms that the new financial system has. In particular it should work with the supplier or other local authorities that utilise the same system to ascertain how key reports can be obtained.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Officers will be working with Liberata over the coming months to address all of the issues identified at audit.
●	Working papers. The working papers provided to support the transaction testing lacked the appropriate level of detail, and in many cases required officers to undertake additional work prior to audit staff being able to test the transaction. This has led to significant delays in the process.	<p>The working papers that support the financial statements need to be improved. A particular area of focus needs to be the evidence provided to support individual transaction testing.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Finance Leadership will be reviewing steps to improve working papers and holding discussions with external audit early in 2019.
●	Property, plant and equipment. The Council use an external valuer to value property, plant and equipment at year end. While a significant proportion of the assets had been valued at the year end, there remained a material uncertainty at year end over the value of assets that hadn't been revalued. There was no evidence of challenge of the work of the valuer by the finance team, which resulted in additional work needed by the finance team, the valuer and the audit team.	<p>Instructions to the valuer need to be clearly communicated, and there needs to be evidence that the output from the valuer has been reviewed for reasonableness and compliance with the initial instructions. Where asset movements are out of line with finance officers' expectations, there should be evidence that these movements are clearly understood, and consideration given as to how these valuations would impact on any assets that have not been valued in year.</p> <p>Officers need to provide a clear working paper demonstrating that assets that haven't been revalued in year are not materially misstated.</p> <p>Management response</p> <p>Agreed. Finance Leadership will be addressing all valuation and working paper issues identified at audit and will look to provide earlier closedown of capital for 2018/19.</p>
●	VFM – Financial Sustainability	<p>Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Senior leadership will continue to review the Council's financial sustainability on a frequent basis and direct resources and actions accordingly. These will be reported to councilors on a regular and prompt basis, with inclusions of decisions for action.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTERSHIRE COUNTY COUNCIL (the "Authority")

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of expenditure and income for the year then ended;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Issue of qualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported a qualified conclusion in the following terms:

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matters described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

Children's Services

In January 2017, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection. The overall judgement was that children's services were rated as inadequate.

The report concluded that:

there are widespread and serious failures in the services provided to children in Worcestershire who need help and protection and children looked after;

services for care leavers are inadequate, because young people leaving care do not consistently receive the necessary support to make a successful transition to adulthood;
services for children in need of adoption require improvement; and
elected members and senior leaders have not taken sufficient action to ensure the protection of vulnerable children.

Following the inspection the Council put in place a service improvement plan. The plan was accepted by Ofsted and subsequently Ofsted published four letters summarising their findings from monitoring visits. The most recent was published in May 2018 and concluded that while the Council continues to improve, many of the processes put in place are still new and will need time to embed.

In addition the Council also received a separate visit from Ofsted in relation to services for Special Education Needs and Disabilities. The visit was undertaken in March 2018, with the results published in May 2018. The outcome of the inspection was that a written statement of action is required because of significant areas of weakness in the local area's practice.

These matters are both evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Commissioning

In recent years the Council has awarded a number of major contracts which have not delivered the anticipated outcomes, resulting in service disruption and the need for the Council to input additional resources to ensure that services are delivered in line with expectations. The most recent was the contract for HR and Finance Services. While the Council has in each case investigated the cause of the problems, it is not clear how the learning is being understood and disseminated to all staff involved within Commissioning, or that the relevant staff all have appropriate skills to ensure contracts are procured and implemented effectively.

The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities. This matter is evidence of weaknesses in proper arrangement for commissioning services effectively to support the delivery of strategic priorities.

Certificate

In our report dated 31 July 2018, we explained that we could not formally conclude the audit on that date until we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2018 and had issued our report on the consistency of the pension fund financial statements included in the Pension Fund Annual Report of Worcestershire Pension Fund with the pension fund financial statements included in the Statement of Accounts. We have now completed this work and issued the consistency opinion for the Pension Fund Annual Report.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion and conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General.

J Gregory

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

28 August 2018

This page is intentionally left blank

Michael Hudson,
Chief Finance Officer
Worcestershire County Council
Spetchley
Worcestershire
WR5 2NP

28 August 2018

Dear Michael

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

T +44 (0)121 212 4000

www.grant-thornton.co.uk

Worcestershire County Council and Pension Fund: Closure of the audit for 2017/18

Further to our letter dated 31 July 2018 we are pleased to be able to advise you that we have now completed our work on your Whole of Government accounts and issued our opinion on the consistency of the pension fund financial statements in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts

Our certificate of completion of the 2017/18 audit is attached. Please publish this certificate on your website alongside the audited Statement of Accounts (which incorporates our auditor's report thereon). Please ensure that you do not reproduce the signature of the auditor in any electronic format for any other purpose.

Please note that Regulation 16(1) of The Accounts and Audit Regulations 2015 requires the Council to publish (which must include publication on its website) a notice of conclusion of the audit. This notice can now be issued. It should include a statement that the audit has been concluded and that the statement of accounts has been published and of the rights of inspection conferred on local government electors by section 25 of the Act.

Please feel free to contact me if you like clarification on any point.

Yours sincerely

J Gregory

John Gregory

For Grant Thornton UK LLP

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE
21 SEPTEMBER 2018**STATUTORY ACCOUNTS 2017/18 - LESSONS LEARNED**

Recommendation

- 1. The Chief Financial Officer recommends that the report be noted and recommended actions endorsed.**

Background

2. The statutory deadline for publishing the 2017/18 audited set of accounts was 31 July 2018. Members will be aware that the statutory accounts presented to Committee on 26 July 2018 were not fully audited and delegated authority to the Chairman of the Committee was required for final authorisation.
3. It was acknowledged in the previous report to Committee that there was still work to be done. Subsequently, this work was completed and the accounts were published on time.

Findings and actions

4. Significant improvements have been made in the statutory accounts process; however there are still a number of areas where improvement is required.
5. Key stakeholders have been identified and their views sought as part of the review process. We will continue to work with them to ensure that the actions identified are implemented. These stakeholders include:
 - Finance staff in operational and central teams
 - Grant Thornton, the Council's external auditors
 - Liberata
 - Finance leadership and management teams
 - Audit and Governance Committee
6. The table below provides an update on the areas identified as part of the review and progress made to date:

Finding	Actions
Leadership and Governance	
Clear leadership was provided by the Finance Leadership Team with the Finance Manager responsible for delivering the accounts providing update reports on a regular basis.	Nominated Finance Manager to manage the WCC accounts process; Senior Finance Manager lead for the Pension Fund Accounts. Statutory Accounts to remain a standard item for Finance Leadership Team meetings, with call in and updates as required.
Programme plan	
A comprehensive programme plan was in place to deliver the accounts, however some key activities slipped which impacted on other aspects of the plan.	Improved clarity of linked activities and dependencies should be identified as part of the planning process and reported upon allowing resource to be allocated to support as required.
Arrangements for the formal review and approval of accounting policies could be strengthened.	We will plan for Audit and Governance Committee to review of Accounting Policies in March 2019
Engagement with partners and the external auditors is critical to a successful accounts process.	Early and regular meetings with the external auditors and other partners are critical and will be included in the plan. These will ensure that all parties are aware of and agree outcomes required for delivery and will remove any uncertainty.
Working papers	
The quality of working papers improved in most areas, although more can be done. Key themes identified are: <ul style="list-style-type: none"> • Getting it right first time • Reconciliation to the e5 ledger system • Providing independent source documentation • Providing narrative context to transactions • Gathering information as the transaction is processed rather than at year end 	We are working with finance teams and the auditors to identify examples of both good and bad working papers to inform the training process for staff. Guidance will be produced and training sessions arranged to support this. Directorate based finance staff will have a greater involvement in the overall accounts process and so will develop a greater understanding of the requirements. All working papers will be subject to independent quality assurance and sign off prior to being submitted to the auditors.
Systems and Processes	
The implementation of the new e5 ledger system in April 2017 provided a number of challenges for the year end process. The new system has different inherent processes and reporting capabilities which have taken some time to learn. Key issues for included timing of transactional postings at year end and extracting full population data for sample selection by the external auditors.	Continued training for accountancy staff to extract reports and information from the system. Reports to be run and reconciled monthly for key audit areas including operating expenses, employee expenses and fees and charges. Transactions undertaken at year end but not posted to the system because of timing issues will be managed by the

Finding	Actions
	<p>central accountancy team.</p> <p>The plan will include investigation of other Councils that use the E5 finance system, including any existing clients of Grant Thornton, External Auditor, to review data extraction and verification processes.</p>
Capital accounts	
<p>The capital close down process is complex and impacts on all of the main statements and a number of disclosure notes. It has, however, been treated independently to the main process and the resources are outside of the main team.</p>	<p>The Council's accounts process should be considered in its entirety and the capital accounts process integrated in to the core activities. Accountants from the central team will receive basic capital training in September to support this and the capital accountant will be integrated into the main accountancy team to develop the spread of knowledge and provide additional resource.</p>
	<p>We are also reviewing the activities involved in closing the capital accounts to consider activities which can be undertaken during the year.</p>
<p>There is only one capital accountant in the team which leads to pressures at critical times and limited challenge</p>	<p>Greater integration of capital activities into the accountancy team enabling wider expertise</p>
<p>In our delivery of the accounts we use expert opinions from a number of independent parties, including capital valuers and actuaries. We need to ensure that the correct level of challenge is undertaken to ensure that we are comfortable with the information included in our accounts.</p>	<p>Training will be provided for key accountancy staff to ensure that they have the required knowledge to understand and challenge information provided</p>
Reliance on experts	
<p>Reliance on external valuers requires understanding of their processes and a level of challenge which has not been adequate in the process to date.</p>	<p>Council staff will work closely with external valuers to ensure that the process is understood and information provided is robustly assured.</p> <p>The timetable for this work will also be brought forward by two months to January with a refresh at 31 March</p>
Annual Governance Statement	
<p>The Annual Governance Statement was significantly improved this year and was managed by the Corporate Risk Management Group ensuring greater operational engagement.</p>	<p>As part of a continuing improvement process a number of improvements have been identified and will be put in place for the 2018/19 process. These include operational workshops to provide information to responsible officers,</p>

Finding	Actions
	additional review stages to ensure all issues have been identified and the inclusion of additional information and action plans relating to any risks identified.
Staffing	
The central accountancy team were fully resourced and, although there were a number of new staff, the production of the accounts was smoother this year.	The integration of the capital accountant into the central accountancy team will improve the full accounts process and training will continue to ensure that relevant skills are in place.
There continue to be challenges with integrating revenue and capital information.	Greater integration of the capital process will be undertaken.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Point for this report

Michael Hudson Chief Financial Officer

Tel: 01905 846942

Email: mhudson@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following background papers relate to the subject matter of this report:

Audit and Governance Committee Papers 26/07/18:- External Audit – Audit Findings Report, Annual Statutory Financial Statements for the year ended 31 March 2018

AUDIT AND GOVERNANCE COMMITTEE 21 SEPTEMBER 2018

UPDATE ON FINANCE IMPROVEMENT PROGRAMME (FIP)

Recommendations

- 1. The Chief Financial Officer recommends that the report be noted and that a further update be brought to the next Committee.**

Background

2. At the last meeting on 26 July 2018 the Committee discussed the external audit opinion (Grant Thornton) and Internal Audit Annual Reports. Both auditors raised concerns regarding the financial systems and procedures with recommendations around improving the controls environment.
3. Management are therefore reviewing what actions are needed to address these concerns and recommendation and this report updates the Committee on this matter.

Management action to date

4. The Chief Financial Officer has undertaken a review of all audit recommendations and carried out an assessment of the practices and procedures in place. This has identified significant improvements are needed to strengthen the control environment and to ensure that the Council has a fit for purpose finance function to support the organisation in the coming years.
5. Some of the issues identified include that:
 - There is a low proportion of professionally qualified staff within the finance team
 - The level of financial competence and use of the ledger's reporting tool by budget holders is lower than expected
 - Significant actions recommended as part of the audit assessment of the control assurance framework have yet to be implemented
 - The control environment is not fully documented, with clear procedural notes or training, and the hand offs to Liberata are not always clear
 - The current ledger is not utilised to its full potential
 - There are too many different ways to raise and make payments, with a need to improve controls

- There are inconsistencies in practices across directorates, including accounts receivable and payable
- There are too many work arounds that are reducing the efficiency of the function.

6. As a result a change programme has been drawn up to address these issues. The Finance Improvement Programme has six projects that are interlinked:

- i. **Control environment** – this project will ensure that audit recommendations are actioned, that key financial controls are in place and that there are clear and documented governance arrangements, as well as procedural manuals that ensure staff understand and are aware of the processes they must follow.;
- ii. **Budget Structures and roles and responsibilities** – this project will focus on ensuring that the cost centres and subjective reporting are effectively linked to the ways of working that ensure robust budget monitoring;
- iii. **Financial Transactions** – this project will review how payments / income receipts are generate and paid / raised to ensure that an efficient and effective system is in place and fully understood and applied;
- iv. **Staffing structures** – this project will review the role of budget holders and those who commit to spend to ensure that the roles and responsibilities are aligned to the new governance and approaches; as well as assessing and ensuring that the finance functions are fit for purpose to support the new ways of working;
- v. **Systems** – this project will seek to maximise the utilisation of the general ledger (E5), linked to effective processing and recording within key feeder systems. This will link with the replacement of the social care database (Frameworki with Liquid Logic);
- vi. **Partners and customers** – this project will ensure that where there is a third party engagement, be that Liberata, schools, etc... that the roles and responsibilities are clearly understood and that the interfaces ensure effective reporting and control. The programme has been discussed with Liberata and they are committed to this approach and workshops to plan the work are scheduled for September and October.

7. Underpinning these are two cross cutting projects:

- i. **Communications** – this will focus on both the communication of progress on the project but also on how we communicate on an ongoing basis with the organisation to break down the cultural and professional language that often reduces the buy-in to financial controls and monitoring;
- ii. **Training** – this programme will both ensure staff working on the Programme have the right skills, but also plan for how we upskill the finance and non-finance staff with the necessary competence to be able to work in the new environment post change delivery.

8. A diagram of the programme and the project leads is attached as an Appendix. The Programme is being managed using the Council's project management approach, and includes a Project Manager and Board to oversee the actions. At this stage the Board is just being constituted.

9. Draft project plans are being drawn up with significant improvements to be delivered by the end of the financial year and the whole project likely to last for some 18 months.

10. Draft project plans are being drawn up with significant improvements to be delivered by the end of the financial year and the whole project likely to last for some 18 months.

11. A Full Business Case is being drafted to reflect the anticipated costs and savings of the Programme. It is suggested that this and a full update is reported to the next and subsequent Audit and Governance Committee meetings, and is considered alongside audit reports and the Annual Governance Statement.

Legal, Financial and HR Implications

12. There will be a cost associated with resourcing the Programme. At present this is being managed within the existing Finance service budget by reallocating and realigning individuals within the current team. Over time that is likely to be supplemented by specific resources for specific tasks, for example the use of Advanced (owners of E5) for system enhancements and training. This should be offset by recurring savings generated from efficiencies arising from the Programme, and as such the Programme is seen as an efficiency programme.

13. In addition, it is envisaged that the Financial and Procurement Regulations will need updating. This will be undertaken in accordance with the Council's constitutional provisions for updates that includes and requires councillors input.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: Ext 6268

Email: mhudson@worcestershire.gov.uk

Supporting Information

- Appendix – Finance Improvement Programme Overview diagram.

Background Papers

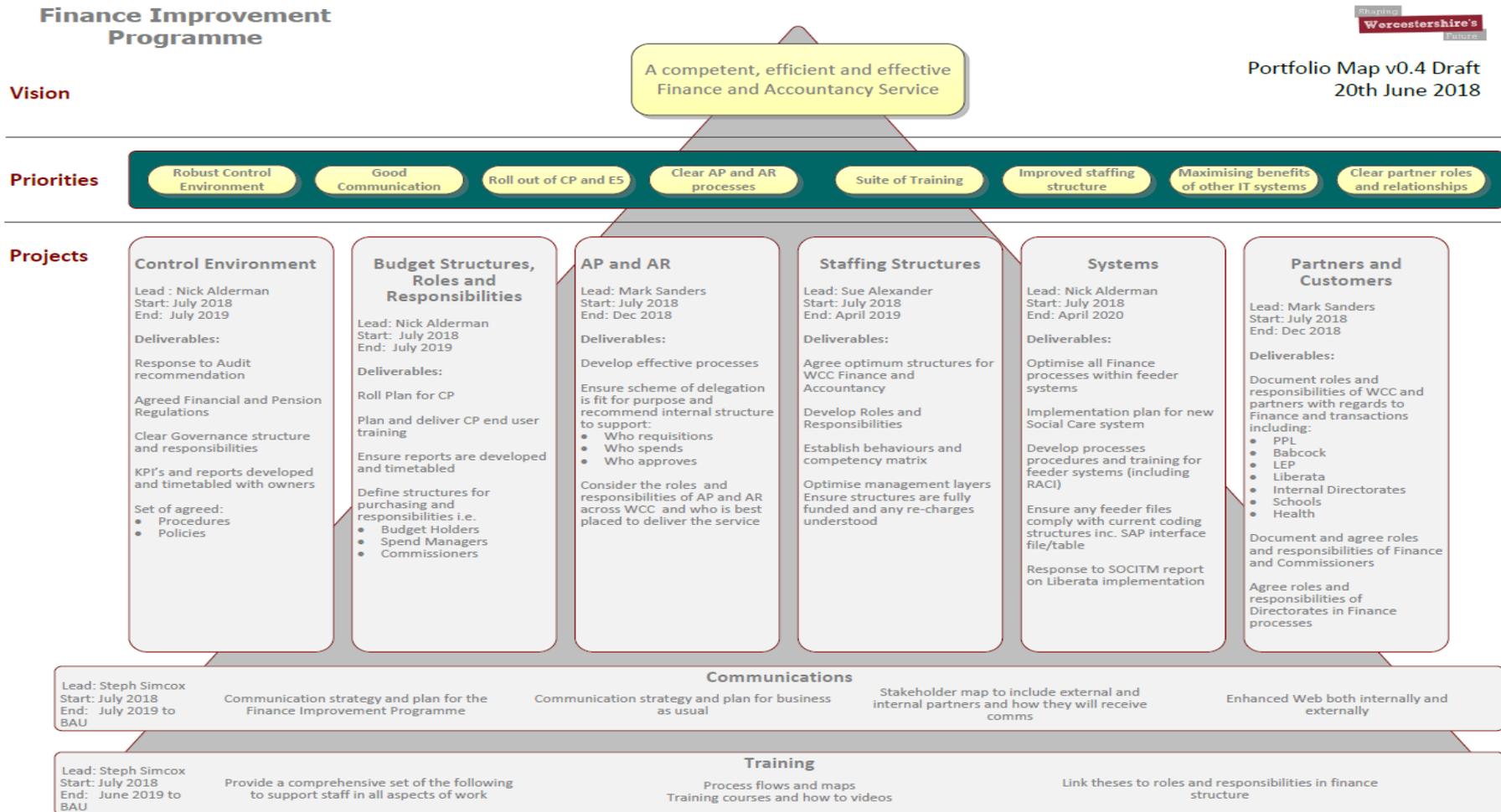
In the opinion of the proper officer (in this case the Chief Financial Officer) the following background papers relate to the subject matter of this report:

External and Internal Audit Reports presented to the Audit and Governance Committee on 26 July 2018.

Finance Improvement Programme Overview diagram.



Portfolio Map v0.4 Draft
20th June 2018



This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE

21 SEPTEMBER 2018

INTERNAL AUDIT PROVISION UPDATE

Recommendation

- 1. The Chief Financial Officer recommends 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.**

Background

2. Worcestershire County Council's (WCC) Internal Audit (IA) Service is provided by Warwickshire County Council (WarCC) following a public to public TUPE transferred shared service that started May 2015.
3. The original business case was centred around saving money through joint working efficiencies; access and use of an IT system 'Galileo'; and the ability for auditors to do work across councils on the same pieces of work.
4. The contract has been in place for 3 years and was extended by default 1 April 2018 for two years with an option to give a notice period break clause if this was to be different.
5. An assessment has been undertaken of the value for money of this provision and alternative options assessed. This report summarises that assessment.

Assessment of future provision of Internal Audit

6. The requirement to have an Internal Audit function is a statutory one, and ensuring an appropriate level of resources is the responsibility of the Section 151 Officer. As part of my annual assessment I have appraised the current performance and function of the existing Internal Audit arrangements with Warwickshire CC both against the original intentions of transfer and current standards. Key points to note from that review are set out in the following paragraphs.

- ***Audit Fee***

7. The IA Service at point of transfer cost the Council £270,000 plus overheads. The overheads were not in effect part of the shared service. The Council did not seek to reduce its overheads as a result of the shared service, which is understandable given the small resource that transferred. As such it is assumed all overheads are not a factor in this assessment.

8. The service was transferred at a contract value of £260,000 and then reduced in 2016/17 to £250,000. This gave WCC a small saving and a capped cost that was projected to increase (with no changes in assumptions / staffing).

9. The current cost of the Service is £300,000 following an agreement by the former WCC CFO with WarCC Chief Internal Auditor to increase the fee in 2017/18 to reflect a higher than forecast cost to WarCC of the agreement. It is noted that the additional costs arose from a. a higher need for management of the WCC contract than was originally forecast and WarCC using a third party audit provider to cover some of the work under the contract following a number of vacancies post transfer and inability to recruit.

10. As such the current price of the contract is both higher, and only variable by contract. A conversation with WarCC CIA May 2018 also identified that WarCC were proposing writing to WCC in the Summer of 2018 to request a further increase in fee (c£25,000) due to the former WCC staff changes in terms and conditions resulting in higher costs. This is not considered in WCC interest at this particular time. It is estimated that the cost of the service could be circa £50,000 less for the same service in-house.

- **Audit Quality**

11. There have been a number of improvements in the service since the transfer:

- The use of Galileo recording system has improved the speed of reporting and performance management
- The style of reporting has improved, with great focus on assessment
- The service as a whole has just received a good external third party assessment. This was reported to the Audit and Governance Committee on 26 July 2018. This though did raise an issue around focus on risk (see later notes).
- Generally the feedback from clients has been very positive on the outcome of audits.
- There is good added value work being performed on an advisory front.

12. Against that as Section 151 Officer and a former External Audit Director and Chief Internal Auditor I have assessed the service as having a number of areas of development:

- There has been a lack of performance management of the team by WCC, a fault that lays with WCC but this has meant issues such as delays in completing audits or responding to recommendation have not always been picked up and managed. This in itself can be managed by maintaining a higher profile and focus on IA and its role / importance to the WCC. As such it is not a direct factor to consider in this assessment
- Performance management of the CIA is confused as split between Councils. This combined with the previous factor has made it harder to influence and shape the function

- Vacancies have struggled to be recruited to and there is a risk of further staff leaving. As such a number of audits have slipped / been delayed; or third party auditors TIAA have been used at extra cost to complete the audit plan. This does not fulfil one of the original benefits of the business case for transfer of shared staffing
- The reduced resources was a key factor in work on the new financial and payroll/HR systems (E5 and iTrent) not being undertaken before 31 March 2018. This work has now been completed (May / June 2018) with a number of 'limited assurances'. In two cases (AP and Bank Reconciliation) the audit findings relate to incidents that occurred in June/July 2017. This is too late, and Finance were already aware and resolving matters so these audits gave no additional value to WCC. The audits should have taken place at the time of problems.
- The Annual Plan was presented to July 26 Audit & Governance Committee, i.e. the end of Period 4. The contract requires presentation to the Committee in advance of the financial year.
- Initial review of reports has raised a need for a heavy steer regarding improvements in style, content and focus on risk. The CIA has responded positively.

- Options to address

13. Three options were considered:

- As is, although with improved management of the contract with potential changes;
- Serve notice on the contract and bring the contracted service back in-house; or
- Serve notice on the contract and procure a contract with another provider.

14. An assessment has been undertaken against the following criteria and is set out in detail in the Appendix:

- Price
- Quality
- Complexity
- Partnerships
- Reputation

- Control Environment

15. The chosen option is: 2 - Serve notice on the contract and bring the contracted service back in-house, based on both price and quality. This does not preclude a future review of the service provision and options for partnership.

16. Discussions with WCC Monitoring Officer confirmed that the decision is delegated to the CFO around this service. As such option 2 was the chosen route to pursue and notice was served by 30 July 2018 to WarCC. However, due to the need to assess the HR implications and management of that process this is the first opportunity to inform this Committee.

17. Cabinet Members with responsibility for Finance at both Councils have been engaged and informed, and the Chairman and Vice-Chairman of this Committee were kept informally briefed of this decision.

18. WCC are keen to express its gratitude to WarCC for the improvements they have made to the IA service, and it is envisaged that joint working and sharing of information will still flow between the two councils in relation to IA.

19. The process is being managed within Finance and supported by the HR teams at both WCC and WarCC. The majority of the transfer is expected to be managed without much risk, the key issues that have been flagged to address that will need action in the Autumn are diligence surrounding the TUPE of staff to WCC, and the procurement and establishment of an audit software / database. Both these risks are being managed.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: Ext 6268

Email: mhudson@worcestershire.gov.uk

Supporting Information

- Appendix – Assessment criteria

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

Assessment criteria

<p style="text-align: center;">Criteria of assessment</p>	<p>Option 1 – As is</p>	<p>Option 2 – Insource</p>	<p>Option 3 – other provider</p>
<p>Price</p>	<p>£300,000 to £325,000. So an increase in budget. However capped.</p>	<p>The current cost without consideration of a new system is c£264k subject to consideration of CIA post. It is assumed the CIA costs can be met through a Finance restructure, so the option supports a saving / standstill.</p> <p>Future budgets would increase for pay as per the rest of the council and would not be capped as is the greater potential under options 1 or 2.</p> <p>There would also be a capital outlay of c£30,000 for a new system, and ongoing c£7,000 licence costs. This will need to be managed and could be funded on an annual repayment of £3,000 from savings.</p>	<p>Soft Market testing suggests a fee in the region of £350,000 to £400,000 capped subject to change variations. As such the higher cost option</p>

Criteria of assessment	Option 1 – As is	Option 2 – Insource	Option 3 – other provider
Quality	See above commentary on as is.	This option would require a CIA and good management and there is a risk associated with this. The service will also need to pursue a robust IA recording system. The choice will need to be managed. However, it is anticipated the greater focus on direction will improve quality.	This would depend on the specification, tender and provider. It is assumed this option would provide the greater quality, albeit at a price.
Complexity	No transition, main issue is around ensuring improved performance management.	Transition and in-source process. This can be mitigated but needs to be resourced. With a 9 month lead in period this is not expected to be a significant risk.	This would require a specification and tender process. Again nothing complex but will take time to manage, and a successful bidder would need to be appointed by end of November at the latest to allow for hand over and planning. That is manageable.
Partnerships	Promotes joint council working.	Options around sharing still possible around systems, knowledge, quality assurance, fraud.	Could be Public to Public partnership.
Reputation	No real impact	In-sourcing message need to be managed.	Reasons for change would need to be managed.

Criteria of assessment	Option 1 – As is	Option 2 – Insource	Option 3 – other provider
Control Environment	Would need strong performance management	Would need strong performance management and change control	Would need strong performance management and change control

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE 21 SEPTEMBER 2018

UPDATE ON COMMISSIONING

Recommendations

- 1. The Director of Commercial and Change, and the Chief Financial Officer recommend that the report be noted and that a further update be brought to the next Committee meeting.**

Background

2. At the last meeting on 26 July 2018, the Committee discussed external audit's (Grant Thornton) conclusions around the Council's Value for Money arrangements. Part of Grant Thornton's conclusions were that *"While the Council is making progress in the area of commissioning there remains a risk that lessons learned from the implementation of major contracts are not being appropriately disseminated to all officers. There is a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for the users of the service. As a result we are proposing an except for VFM conclusion."*

3. As such external audit has noted that *"as part of our VFM work in future years we will review what actions have been taken to review and strengthen the arrangements."*

4. Management are therefore reviewing what actions are needed to address these concerns and recommendation and this report updates the Committee on this matter.

Management action to date

5. Members will be aware that there has been recruitment to the Senior Leadership team in key posts relating to commissioning and finance. As part of the new tenures both the Director of Commercial and Change and the Chief Financial Officer have been assessing the current position, and comparing that to practices and experiences elsewhere.

6. The first point to note is that the external audit findings were not and are not disputed. There was a robust debate at the last Committee surrounding the matters raised and there are clearly lessons to learn.

7. At this stage the following has been undertaken:

- A report is going to the Corporate and Communities Overview and Scrutiny Panel (20 September 2018) to discuss what is commissioning, what do we do and what are we looking to review – see Appendix 1 – link to web page

- A review of the current strategies and structures to assess fit for purpose arrangements. This has identified a need to review the Procurement Regulations and practices, as well as the way contracting is planned and governed. As a result a Commissioning and Commercial Board has recently been established to oversee all arrangements. This will include reviewing how lessons are learnt. The roles and responsibilities for that group are appended to this report and a short presentation on the focus of that Board will be presented at Committee – see Appendix 2
- A review of the top 10 to 20 contracts is underway to assess the current position on contracts and value for money
- A review of current contracts has been undertaken against lessons learnt from recent schemes. This has identified and required additional diligence in the replacement for the social care database that has resulted in improved planning and review. It has also deferred the issuing of one tender to assess the opportunity for greater value for money
- The methods used to commit spend are being reviewed to ensure there is greater opportunity for economies of scale from more joined up purchasing across the organisation
- A commercial strategy update is being planned, and has been discussed with the Corporate and Communities Overview and Scrutiny Panel.

8. There is still a significant amount of work to undertake, and discussions will be held with external audit during the coming months as part of follow up of recommendations. It is therefore suggested that this Committee is kept informed of progress as part of its governance function.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Andrew Spice, Director of Commercial and Change

Tel: Ext 6267

Email: aspice@worcestershire.gov.uk

Michael Hudson, Chief Financial Officer

Tel: Ext 6268

Email: mhudson@worcestershire.gov.uk

Supporting Information

Appendix 1 - Link to Corporate and Communities Overview and Scrutiny, Panel, 20 September 2018: Commissioning Report:

<http://worcestershire.moderngov.co.uk/ieListDocuments.aspx?CId=389&MIId=2185&Ver=4>

Appendix 2 - Commissioning and Commercial Board Terms of Reference and presentation slides - 6 September 2018

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer and the Director of Commercial and Change) there are no background papers relating to the subject matter of this report:

External Audit 2017/18 Opinion report presented to the Audit and Governance Committee 26 July 2018.

This page is intentionally left blank



Commercial and Commissioning Board – Terms of Reference

Document Owner	David Griffiths – Strategic Procurement Manager		
Version / Date	0.1 23 rd Aug 2018		
Status	Draft		
Version	Date	Summary of Changes	Document Status
0.1	23/08/18	Document Created	Draft

1. PURPOSE OF GROUP

We have a duty to our communities to apply controls and consistent standards across all of our commercial activities. Applying good leadership and governance ensures that our key decisions, processes and procedures are legal, reflect best practice and manages risk.

Our procurement is subject to European law and we have to demonstrate that it is compliant with legislation and the principles of fairness, non-discrimination and equality. It is essential that all procurement complies with the Council's policies, procedures and transparency code.

2. ROLES

The Board represents all spend undertaken by the Council with third parties. Its remit is to:

- Review the Commissioning Plan
- Realise the outcomes of the Commercial strategy and to review and authorise:
 - Revisions to the Strategy, ensuring it aligns with the Council's approach to Strategic Commissioning
 - Procurement, Contract and Supplier Management Policies and Procedures
 - Category & Procurement Plans
- Own the targets, milestones and cost savings stated within the Commercial Strategy
- Identify and approve procurement projects to undergo a Health Check / Gateway review process (Local Partnerships Worcestershire Internal Assurance Toolkit (IAT))
- Review and approve all Contract Reviews
- Resolve major procurement project escalation issues as they arise
- Ensure all procurement complies with the Council's policies and procedures and transparency code.

3. OBJECTIVES

The objectives of the Board are to:

- Optimise, align and ensure consistent commissioning, procurement and commercial activity across the Council
- Develop and champion the Council's approach to strategic commissioning and procurement
- Align strategic commissioning activities with those of strategic procurement
- Review, challenge and approve the cost savings opportunities
- Review all contract reviews to determine the likelihood of successful delivery of the contract and forecasted benefits, including value for money
- Ensure robust cross-directorate scrutiny of all relevant contracts and projects is undertaken with full appraisal of relevant options.



4. MEMBERSHIP

All core members are to prioritise the Commercial and Commissioning Board and make a commitment to contribute to all meetings. Suitably briefed delegates will be accepted.

If a core member is unable to attend a meeting he/she should notify the Chair as soon as possible.

Core Members	
Name	Role
Andrew Spice (Chair)	Director – Commercial and Commissioning <ul style="list-style-type: none"> • Chair of Board • Executive direction
Michael Hudson	Chief Financial Officer – Finance <ul style="list-style-type: none"> • Executive direction
TBC	Children, Families and Communities Commissioning (Service Head) <ul style="list-style-type: none"> • Commissioning direction
TBC	Adult Social Care Commissioning (Service Head) <ul style="list-style-type: none"> • Commissioning direction
TBC	Economy and Infrastructure Commissioning (Service Head) <ul style="list-style-type: none"> • Commissioning direction
TBC	Public Health Commissioning (Service Head) <ul style="list-style-type: none"> • Commissioning direction
David Griffiths	Strategic Procurement Manager <ul style="list-style-type: none"> • Procurement expertise
Andrea Blake	Commercial Contracting Manager <ul style="list-style-type: none"> • Contracting expertise

The Board may invite additional participation from Directorates, as considered appropriate for the agenda.

A minimum of four Board members in total must be in attendance. This must include:

- Chair (Director of Commercial and Commissioning or Finance)
- 2 Service Heads (or authorised deputy)
- Strategic Procurement or Commercial Contracting Manager

5. FREQUENCY OF MEETINGS

The Board will meet weekly (face to face / conference call).

Documentation will be circulated 2 days prior to meetings. An action and decision log will be kept; the Strategic Procurement Manager will have responsibility for capturing and monitoring actions and decisions.

6. ACCOUNTABILITY

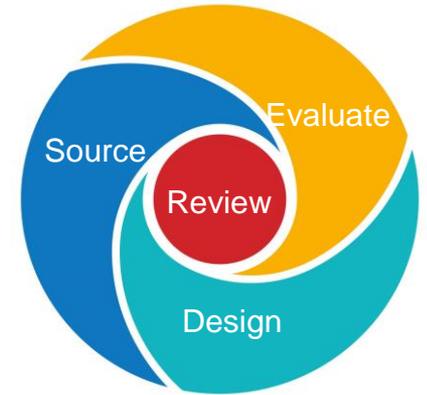
The board is accountable to SLT



7. STANDARD AGENDA ITEMS

- Welcome and Introductions
- Actions from previous meetings
- Contract review updates
- Procurement spend and savings
- Contract performance, targets and milestones
- Commissioning plan update
- Category and procurement plan update
- Commercial strategy update (quarterly)
- Category plan reviews (quarterly)
- AOB

This page is intentionally left blank



Commercial & Commissioning Board

6th September 2018

Agenda

- Welcome and Introductions
- Objectives of Board
- Cost Savings Programme Update

Objective of Board

- Optimise, align & ensure consistent commissioning, procurement and commercial activity across the Council
- Develop, champion and align strategic commissioning & procurement
- Ensure robust cross-directorate scrutiny of all relevant contracts and projects is undertaken with full appraisal of relevant options
- Realise the outcomes of the Commercial strategy

Roles & Responsibilities

- Review, challenge & approve cost savings opportunities
- Review significant contracts – e.g. likelihood of successful delivery, benefits & VFM
- Review the Commissioning Plan
- Review and authorise:
 - Revisions to the Commercial Strategy, ensuring it aligns with the Council's approach to Strategic Commissioning
 - Procurement, Contract and Supplier Management Policies & Procedures
 - Category & Procurement Plans

Roles & Responsibilities

- Own the targets, milestones & cost savings as per the Commercial Strategy
- Identify and approve procurement projects to undergo a Health Check/ Gateway review process
- Review and approve all Contract Reviews
- Resolve major procurement project escalation issues as they arise
- Ensure all procurement complies with the Council's policies, procedures & transparency code.

Attendees

Name	Role
Andrew Spice	Chair
Michael Hudson	Chief Finance Officer
Service Head (CF&C)	Commissioning direction
Service Head (DAS)	Commissioning direction
Service Head (DE&I)	Commissioning direction
Service Head (PH)	Commissioning direction
David Griffiths (COaCH)	Strategic Procurement
Andrea Blake (COaCH)	Commercial Contracting

Cost Savings Programme

- Contract Reviews
- Tail Spend
- Payment

Contract Reviews

Objective...

To reduce contract spend by:

- Securing the same for less through negotiation
- Securing less for less through negotiation
 - Reducing requirement
 - Reducing service levels
- Ending non-statutory contracts
- New procurement

Page 62

It involves...

- Examining the purpose, scope, progress & performance
- Identifying benefits & savings delivered to date
- Reviewing how performance is measured & contract is managed
- Auditing the suppliers adherence to the contract requirements
- Identifying contract risks and issues
- Identifying opportunities for further benefits & savings
- Making recommendations on way forward

Contract Reviews - Approach

Financial Analysis

- Spend
- Savings
- Cost drivers
- Supplier Intelligence/
market positioning/
supplier perception/
supply market

Page 63

Contract Overview

- Objectives & performance
- Relationship and process
- Social Value
- Terms & Conditions
- Payment performance

ID Opportunity

- GAP analysis
- SWOT analysis
- Quantify benefit & savings
- Recommendation
- Implementation

Contract Review Resource

Commercial & Commissioning Board

COaCH

- Commercial Lead
 - Stakeholder Management
 - Share best practice
 - Consider options
 - Agree actions
 - Agree recommendations
 - Implementation
- Contract Officer
 - Review contract documentation
 - Review performance
 - Explore options
- Project Coordinator
 - Dashboard updates
 - Record outputs & outcomes
 - Facilitation & Communication
 - Capture learning points & processes

Service Area

- Commissioning Lead
 - Stakeholder Management
 - Consider options
 - Agree actions
 - Agree recommendations
 - Implementation
 - Contract Manager
 - Provide information & data
 - Review performance
 - Explore options
- ### Support
- Finance Officer
 - Financial modelling & analysis

Contract Review Programme

Category	Supplier	Annual Spend
Health & Social Care	Worcs Health & Care Trust	
Highways	Ringway	
Schools PFI	BAM	
Interim Staff	Matrix	
Home Care	Various	
Residential Care	Various	
Direct Payment Advice	Penderels	
Education	Babcock	
Utilities	West Mercia Energy	
Transport	Various	
Contact Centre	Civica	
Professional Services	CH2M Hill (Jacobs)	
FM	Place Partnership	

Tail Spend - Objective

To reduce tail-spend by a minimum of **£500k** during this year, with ongoing savings in 2019/20 and beyond, by introducing a controlled approach to buying through:

- Aggregation of spend with fewer suppliers
- Challenging discretionary spend
- Limiting what can be bought on Procurement Cards & via Imprest Accounts
- Reducing number of procurement card holders and imprest accounts

Tail Spend - Approach

- **Requisitioner rationalisation**
 - Move to a small cohort of requisitioners
- **Two stage purchase order authorisation**
 - Commercial authorisation of PO prior to budget holder
- **Reinforce "No PO No Pay" policy**
 - Manage non-compliance through SLT & WLT
- **Supplier rationalisation**
 - Aggregate spend with fewer suppliers
- **Procurement card holder & imprest account rationalisation & new policies on use**
- **Expenses audits**
- **Simplify Management Reporting**
 - Fewer general ledger codes

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE 21 SEPTEMBER 2018

CORPORATE RISK REPORT

Recommendation

- 1. The Audit and Governance Committee is requested to note the latest update of the Corporate Risk Register (Appendix 1) including mitigating actions identified in respect of red risks.**

Background

- The Corporate Risk Register provides a mechanism for collating and reporting risks that could affect the delivery of corporate objectives. In April 2017 the Council adopted an electronic risk register tool to hold in one place all the major risks identified by individual Directorates and major projects. A scoring system is used to rate individual risks. This allows risks to be ranked and provides a view of the highest risks identified across the organisation.
- At the end of Quarter Four 2017/18 there were 196 individual risks entered in the risk register of which 17 were identified as high / "red" risks. These high/ "red" risks were reviewed as part of the Council's Annual Governance Statement process for 2017/18.
- Appendix 1 provides an overview of risks identified at the end of Quarter Four 2017/18, and more detail about the highest risks. Individual risks have been grouped for the purposes of reporting here. The highest risks can be grouped into four risk areas:
 - Children's Services – vulnerable children - primarily risks around safeguarding children which are being addressed by the Council's Improvement Plan
 - Adult Social Care – risks around increasing demand and related pressures in the overall health and social care system
 - Financial pressures and related issues
 - Staffing – recruitment/retention/capacity – an issue across the Council but with specific "hotspots"
- The Appendix provides more detail about these risks and details of the steps in place to mitigate them.
- A new performance board has been established to identify, challenge and address performance and risk issues across the council. Terms of reference are included in Appendix 2.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Rob Morris (Management Information, Analytics and Research Manager)

01905 843469

Rmorris2@worcestershire.gov.uk

Supporting Information

- Appendix 1 – Corporate Risk Update
- Appendix 2 – Terms of Reference of the Performance Board

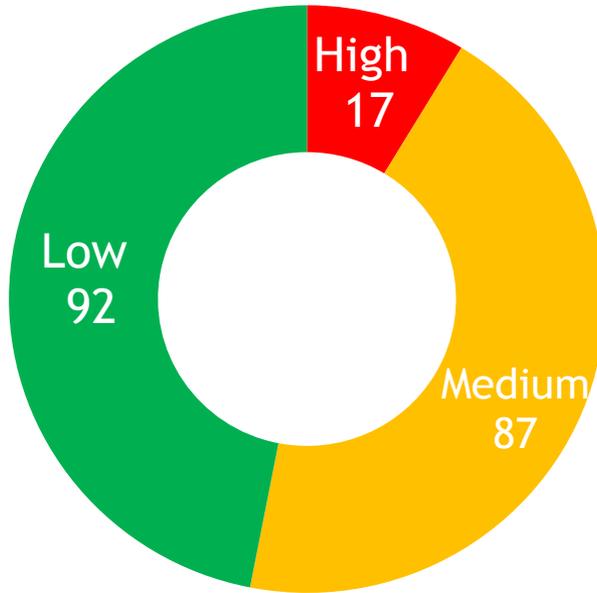
Background Papers

In the opinion of the proper officer (in this case the Management Information, Analytics and Research Manager) the following are the background papers relating to the subject matter of this report:

WCC Corporate Risk Register

CORPORATE RISK PROFILE

The Council's Risk Register is designed to provide an overview of all major risks across the organisation. The chart below give a snapshot as at the end of Quarter Four - 2017/18.



High Risks by Directorate

Children, Families and Communities	8
Adult Services	5
Public Health	2
Economy and Infrastructure	1
Chief Executive	1

CORPORATE RISK AREAS

CHILDREN'S SERVICES - VULNERABLE CHILDREN

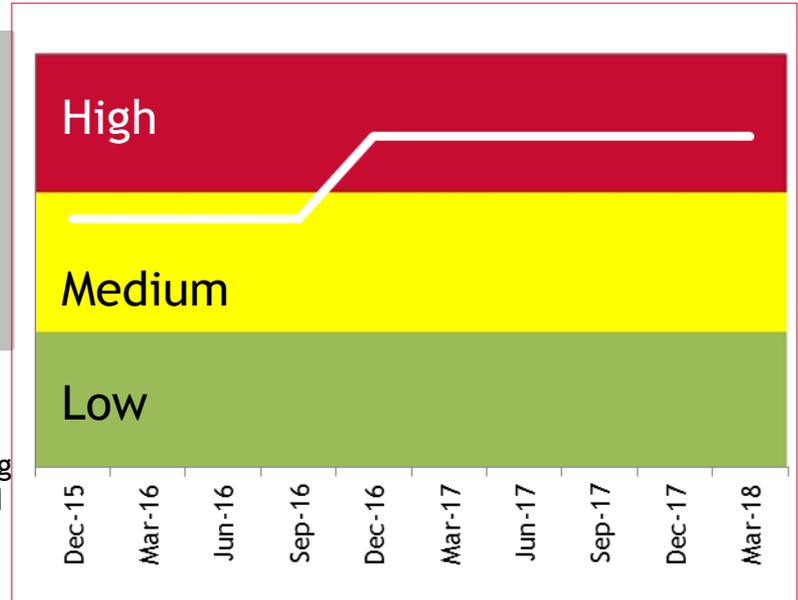
Q4 2017/18

WHY IS THIS AREA OF RISK RED?

- This area of risk is rated Red primarily due to issues identified around safeguarding children which are being addressed by the Council's Service Improvement Plan

MITIGATING ACTIONS

- The Council has revised its Social Work Services Improvement Plan - this is developed within six work streams for 2018/19. A Worcestershire Safeguarding Children Board annual business plan is also in place. Both plans are monitored regularly.
- Work is continuing with Essex County Council as our Improvement Partner. A programme of diagnostic and "deep dive" exercises have taken place, with Quarterly Performance Reviews providing challenge to social care managers and senior managers across the Council.
- Additional financial investment has been agreed which has provided for additional capacity at social work / managerial levels and the service has restructured to create circumstances for best practice.
- Significant development has been undertaken and continues in Quality Assurance and Performance information enabling the service to know itself well. Good progress has been recognised by Ofsted monitoring visits.
- The Council's corporate parenting framework has been improved and was recognised as a strength in the latest Ofsted monitoring report.
- Work continues on the Council's recruitment campaign and to give Worcestershire a better visibility in the job market.
- An inspection of the Council's services for children with Special Educational Needs and Disabilities (SEND) took place in March 2018. Issues identified will be addressed through a joint action plan agreed with partners locally.



WHAT NEXT?

Maintain focus on six workstreams for children's social care:

- Support and develop our workforce
- Promote social care best practice
- Build our quality assurance processes
- Listen to the voice of the child
- Enhance multi-agency partnerships
- Deliver effective Through-Care

Develop action plan following inspection of SEND services

CORPORATE RISK AREAS

ADULT SOCIAL CARE - DEMAND AND RELATED PRESSURES

Q4 2017/18

WHY IS THIS AREA OF RISK RED?

- This area of risk is rated Red due to the challenges of an ageing population and increasing numbers of people with severe levels of disability, delays in hospital discharges, lack of affordable capacity in residential and nursing homes in Worcestershire, and resulting pressures on services

High

Medium

Low

Dec-15 Mar-16 Jun-16 Sep-16 Dec-16 Mar-17 Jun-17 Sep-17 Dec-17 Mar-18

MITIGATING ACTIONS

- The Three Conversations model introduced by Adult Social Care has been extended further, with additional input being provided by occupational therapists. This way of working is designed to use community assets to help individuals achieve greater independence, rather than immediately resorting to paid for packages of care.
- The Patient Flow Centre continues to provide in-reach support to acute hospitals including out of county hospitals. Daily stranded patient meetings are established in both local acute hospitals, with new models of working rolled out with community hospitals. Weekly and monthly meetings are taking place to look at delays.
- Use of block contracts for residential/nursing care is being monitored closely with outcomes used to inform future commissioning. Financial status of care home providers is being reviewed to identify high risk areas. Workforce availability is being monitored.

WHAT NEXT?

- Further consolidation of Three Conversation model, and refinement of performance data
- Continuing work with NHS partners to support acute and community hospitals
- Exploration of options for block contracting / establishing purchasing groups for care providers

CORPORATE RISK AREAS

FINANCIAL PRESSURES

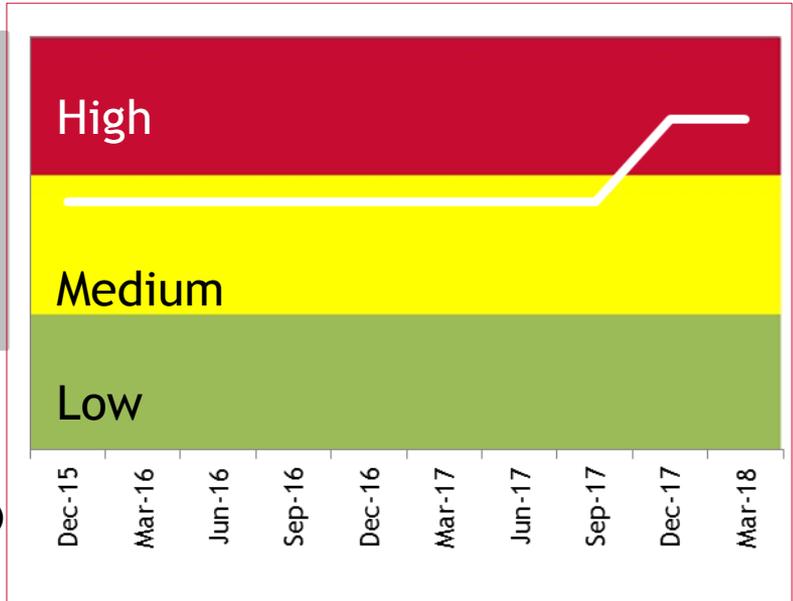
Q4 2017/18

WHY IS THIS AREA OF RISK RED?

- Each of the main Directorates has identified financial pressures as a major risk to the services provided by them and the Council as a whole

MITIGATING ACTIONS

- The Council has achieved a balanced budget for 2017/18 through active management of its resources during the year and use of reserves.
- Good progress has been made on completing the Statement of Accounts (SoAs) and these remain on track.
- The first budget monitoring for 2018/19 Financial year will take place shortly, following closedown of 2017/18 SoAs which remain on track. Any gaps in budgets to forecast at that stage will need to identify compensating savings for discussion / approval.
- A review of reserves and financial standing has been undertaken by the Director of Finance and will continue to be reviewed.
- A paper is being drafted to look at the timetable and approach for 2019-22 budget setting.
- The Council's new financial and budget monitoring system was not fully operational during the year, with the result that Directorates put in place additional steps to ensure that they could monitor income and expenditure. A timetable is in place for the roll out of this in 2018/19.



WHAT NEXT?

Complete the implementation of the new financial and budget monitoring system and continue work to improve budget forecasting

Continue regular review of medium term plan financial objectives and identify further opportunities

Promote the Council policy of supporting middle schools to avoid as far as possible additional capital costs arising from unplanned changes to the schools pyramid structure.

CORPORATE RISK AREAS

STAFFING - RECRUITMENT/RETENTION/CAPACITY

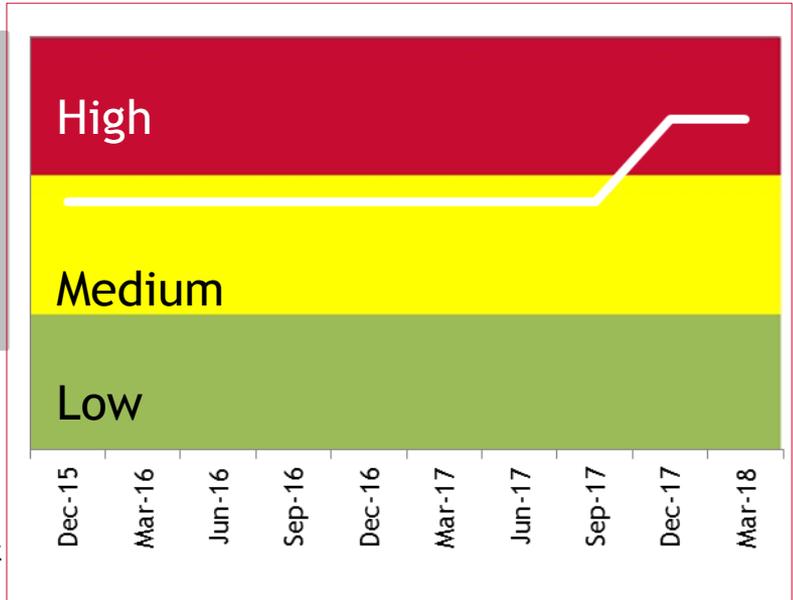
Q4 2017/18

WHY IS THIS AREA OF RISK RED?

- This is an area of risk across the Council with specific “hotspots” including turnover in senior management posts and recruitment to key frontline social worker posts

MITIGATING ACTIONS

- The Council has successfully recruited to key senior management posts. The new Chief Executive, Chief Financial Officer and Director of Commercial and Commissioning are now in post.
- A dedicated social work recruitment team, based in the Council, is in place. It covers both adult and children’s social work and other adult social care posts. Initiatives have included working with operational services to recruit at job fairs and target newly qualified workers
- A new “Leave the Bid City behind” campaign has been launched. This aims to promote the benefits of living and working in Worcestershire, and makes use of social media to raise the profile of the County.
- Apprenticeship and graduate recruitment schemes have continued with a view to developing potential permanent employees
- Business continuity plans identify the steps that will be taken to maintain critical services when there are staffing shortages .



WHAT NEXT?

- Refresh the Council’s Talent Management scheme as part of its succession planning
- Review the approach being taken to key “hotspots” where recruitment and retention are particularly difficult
- Recruit next cohort of graduates

This page is intentionally left blank



Performance Board – Terms of Reference

Document Owner	COACH Programme Office		
Version / Date	1.1 23 rd Aug 2018		
Status	FINAL		
Version	Date	Summary of Changes	Document Status
0.1	11/06/18	Document Created	Draft
0.2	18/07/18	Rob Elmes Updates	Draft
1.0	09/08/18	Board Sign Off	FINAL
1.1	23/08/18	Amended governance chart to include new commercial and commissioning board	FINAL

1. PURPOSE OF GROUP

To provide cross Directorate support and challenge – holding each to account in order to bring greater reassurance across the Council and to provide oversight via challenge, support and advice for the below Council critical functions, appropriately feeding into Corporate Business Board (CBB), Cabinet and Star Chamber as required;

Council Key Performance Indicators (KPI)

- To ensure progress of the Corporate Plan delivery vehicles are kept on-track against planned timescales through KPI evidence
- 5 x KPI from each Directorate – DAS, E&I, CFC, FINANCE, PH (25 in total)
- 5 x Council wide cross cutting indicators (COACH)

Performance Management of Organisation

- To ensure progress of the Corporate Plan delivery vehicles are kept on-track against planned timescales through effective performance management of the organisation (against key HR and Organisation Delivery metrics)

Risk Management

- To have oversight of key Council risks and issues, including receipt of relevant risk escalation via the Corporate Risk Management Group (CRMG) ensuring risks and issues have appropriate monitoring, control, mitigation and buy in from Directorate representatives
- CRMG will feed into the Performance Board and will have a clear responsibility to set the overall framework and establish and monitor the corporate risk register. Corporate Risks are those that might impact high level, medium to long-term, goals and objectives of the Council together with those cross cutting issues that have potential to impact significantly on service delivery and business continuity.

Efficiency Programmes (Savings)

- To ensure progress is maintained within agreed timescales on programmes, through highlight, dashboard and milestone reporting. Where necessary support and challenge the pace and quality of progress ensuring desired outcomes and benefits are realised (Corporate Plan)
- To oversee development, delivery, benefits realisation and closure of projects against planned timescales and milestones



- To ensure financial assurance, including highlighting financial pressures and risk
To support and develop consistent reporting and adhere to agreed standards for project and programme documentation, plans resourcing and reporting

Transformation

- To analyse and manage interdependencies between programmes of work to reduce duplication and ensure synergy
- To champion delivery of the Corporate Plan through Transformation initiatives ensuring alignment to the strategic direction of the Council
- To explore new ways of working for the organisation, including work with relevant partners
- Demand management and Demographic impact
- Spend to save initiatives
- To act as decision maker for any one-off investments to support delivery of key programmes and projects using the Transformation Fund

2. MEMBERSHIP

All core members are to prioritise the Performance Board and make a commitment to contribute to all meetings.

Delegates will be accepted. If a core member is unable to attend a meeting he/she should notify the Chair and Programme Manager as soon as possible.

Core Members	
Name	Role
Paul Robinson	Chief Executive and Head of Paid Service <ul style="list-style-type: none"> • Optional and not required for all meetings
Andrew Spice (Chair)	Director – Commercial and Commissioning <ul style="list-style-type: none"> • Chair of Performance Board
Catherine Driscoll	Director – Children, Families and Communities
John Hobbs	Director – Economy and Infrastructure
Avril Wilson	Director – Adult Services
Frances Howie	Director – Public Health
Michael Hudson	Chief Financial Officer – Finance
Rich Taylor	Head of Service – Human Resources
Keith Beech	Senior Content and Communications Manager
Rob Morris	Management Information and Analytics Manager
Rob Elmes	Programme Manager – Commercial and Commissioning <ul style="list-style-type: none"> • Capture and monitor actions from Performance Board • Manage change control process and decisions
Non-Core Members	
<ul style="list-style-type: none"> • Equality and Diversity • Corporate Risk Management and Performance • Environmental and Sustainability • Systems and IT • Directorate Programme 	<ul style="list-style-type: none"> • Senior representatives of other key areas of the business will attend on an 'as required' basis



Managers	
----------	--

3. FREQUENCY OF MEETINGS

The Performance Board will meet 6 weekly for 1 hour, commencing from 25th June 2018. Where possible, each board will follow on from an existing SLT meeting and feed into a 6 weekly Star Chamber (Efficiency Review) and CBB as required.

Documentation will be circulated 3 days prior to meetings. An action and decision log will be kept; the Programme Manager will have responsibility for capturing and monitoring actions and decisions.

4. STANDARD AGENDA ITEMS

- Welcome and Introductions
- Key Performance Indicators
- Performance Management
- Risk Management
- Efficiency Programmes (Savings)
- Transformation
- Change Controls
- AOB

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE 21 SEPTEMBER 2018

COUNTER-FRAUD REPORT 2017/18

Recommendation

- 1. The Chief Financial Officer recommends that the Counter Fraud Report 2017/18 (attached as an appendix) be noted.**

Background

2. The attached report summarises the Council's compliance with best practice, demonstrates its continued commitment to strong counter fraud measures and summarises its response to reported frauds. It is important that the Council maintains its counter fraud response as changes to service delivery continue to evolve.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix – Counter Fraud Report 2017/18

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to this report:

Agenda papers and Minutes of the meeting of the Audit and Governance Committee on 22 November 2013.

This page is intentionally left blank

August 2018

Counter-Fraud Report 2017/18



Contents

Section	Page
1. Introduction.....	3
2. Background	3
3. CIPFA Code.....	4
4. Investigative Work 2017/18 and 2018/19 to date	5
5. Proposed Proactive Work 2018/19	6
6. Conclusion and Next Steps	6
7. Recommendations.....	6

1. Introduction

1.1. The purpose of this report is to:

- Review the delivery of counter-fraud work since March 2017;
- Provide information on the overall effectiveness of the Council's arrangements to counter fraud and corruption within the overall local government context.

2. Background

2.1. In administering its responsibilities, Worcestershire County Council takes a zero tolerance stance against fraud, corruption and theft, both from within the Council and from external sources. The Council is committed to an effective anti-fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities.

2.2. The latest CIPFA Fraud and Corruption Tracker published in 2017 stated that across local authorities more than 75,000 frauds have been detected or prevented in 2016/17 with a total value of £336.2m. The number of fraud cases investigated or prevented dropped in 2017, but the average value per fraud increased from £3,400 to £4,500; the reason for this could be that local authorities are focusing on cases with a higher financial value.

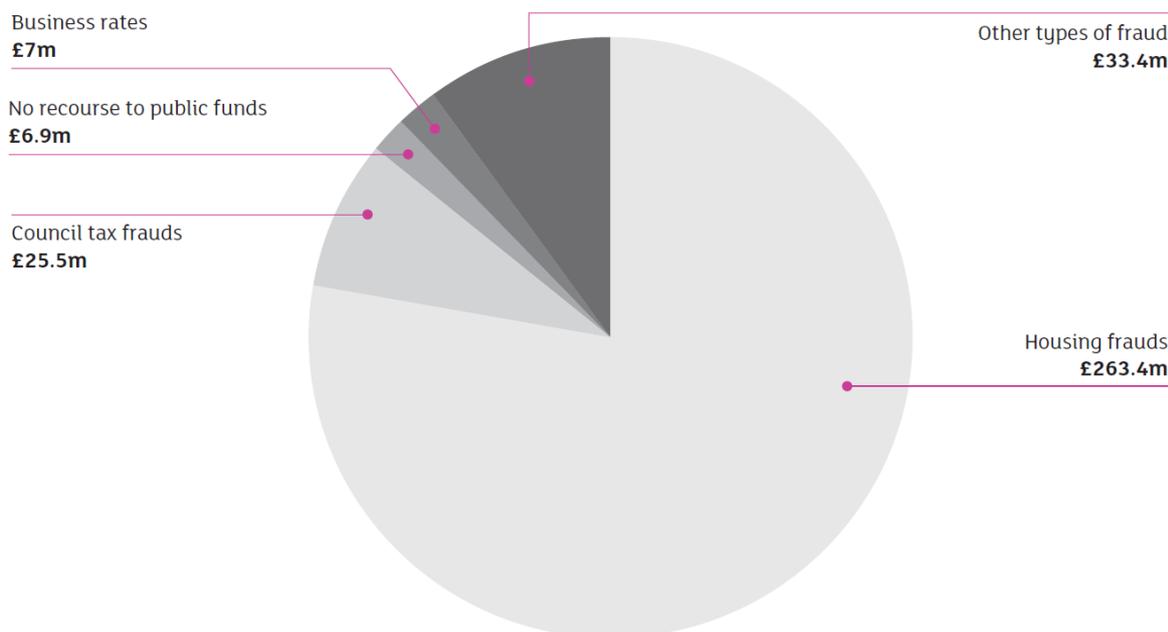
2.3. The survey also revealed the following:

- procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas
- adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated compared with £3.0m in 2016
- the highest number of investigations related to council tax fraud (76%) with a value of £25.5m
- the highest value area of fraud is housing with an estimated total of £263.4m
- 38% of organisations who responded have a dedicated counter-fraud service.

2.4. The estimated value of detected local government fraud is shown in the following chart:

Worcestershire County Council Internal Audit Services

Estimated value of fraud detected



- 2.5. It should be noted that the key fraud risk areas are therefore not the direct responsibility of county councils. The statistics suggest that the incidence of fraud in county councils is relatively low compared to other types of local authority. Nevertheless the Council cannot be complacent and it is important that high standards of probity and its good reputation for protecting the public purse are maintained. The minimisation of losses to fraud and bribery is essential for ensuring that resources are used for their intended purpose. Key fraud risk areas are taken into account when developing the Council's internal audit plan.

3. CIPFA Code

- 3.1. CIPFA have setup a Counter-Fraud Centre to promote best practice in preventing fraud and have published a voluntary Code of Practice – Managing the Risk of Fraud and Corruption. The Code has five key principles which are to:
- Acknowledge the responsibility of the governing body for countering fraud and corruption
 - Identify the fraud and corruption risks
 - Develop an appropriate counter fraud and corruption strategy
 - Provide resources to implement the strategy
 - Take action in response to fraud and corruption.
- 3.2. The Code also makes it clear that leaders of the Council have a responsibility to embed effective standards for countering fraud and corruption within the Council. Part of this process includes a statement in the annual governance statement regarding adherence to the code, which has been done.

Worcestershire County Council Internal Audit Services

- 3.3. CIPFA have produced a voluntary assessment tool that Councils are able to use to assess their performance against the Code. This will be completed in the next year and reported to the Audit & Governance Committee.
- 3.4. CIPFA's Code of Practice details a number of policies as a minimum requirement. These policies form the foundation for a sound anti-fraud culture and will become increasingly important in identifying and reporting potential fraud in an environment of:
 - Continued austerity
 - Continuing changes to service delivery
 - Reduced staffing
 - Changes to the control environment
 - Greater local autonomy
 - Changes to roles and responsibilities.
- 3.5. The current status of these core policies is shown in Appendix 1. It should be noted that policies of this nature rarely need substantial changes.

4. Investigative Work 2017/18 and 2018/19 to date

- 4.1. The Council does not have a significant number of irregularities. However, the size and complexity of the Council means that it is inevitable that there will be a small number of irregularities to be investigated. Any significant issues arising from investigations are reported to the Audit and Governance Committee.
- 4.2. The following investigations completed by Internal Audit since the previous report:
 - Ill Health Retirement - An investigation was conducted into an allegation that a former employee had fraudulently obtained early release of their pension on ill health grounds. Agreed processes had been followed and management have agreed further improvements to strengthen procedures.
 - European Regional Development (ERDF) grant - A grant was fraudulently obtained. Internal audit investigated this matter and provided evidence to the Police and Crown Prosecution Service. The grant applicant was charged and pleaded guilty to fraud at Worcester Crown Court on 18th April 2018. He was fined £1,000, ordered to pay £5,000 to the Council and £535 costs.
 - Conflict of Interests - An investigation was conducted into an internal conflict of interests situation. Internal Audit attended a disciplinary hearing in the role of investigating officer to report the findings from the investigation.
 - Direct Payments - Adult Services. An individual had been in receipt of direct payments for a number of years but they had not provided any recent bank statements. Moreover, the service user had acknowledged that she had not been entitled to the payments more recently. This matter has been reported to Action Fraud and action is being taken to recover £38,867.58 that she was not entitled to.
 - Headteacher Recruitment Process - An investigation was conducted into a Headteacher recruitment process. A report has been produced which

Worcestershire County Council Internal Audit Services

recommends a number of improvements to the processes around resignations, delegation of the recruitment process, arrangements for reporting to governing bodies, salary determination, advertising of posts, shortlisting, interview and selection processes, ratification of appointment decision and agreement of salary.

5. Proposed Proactive Work 2018/19

5.1. It remains essential to continue to encourage a strong anti-fraud culture both through improving the awareness of staff, members and the public and also improving the way fraud is detected. Therefore in addition to completing the CIPFA self-assessment tool it is proposed that during the coming year:

- A publicity programme is undertaken to promote the awareness of fraud and reinforce what staff should do if they suspect fraud. As part of this the Fraud Response Plan will be reviewed.
- Internal Audit will continue to support the review of policies as outlined in Appendix 1.
- Internal Audit will coordinate the submission of data to the Cabinet Office for the 2018 National Fraud Initiative. The results of this exercise, which are not expected before February 2019, will be reported to the Audit & Governance Committee in due course.

6. Conclusion and Next Steps

6.1. The Council has a low level of detected fraud when compared with levels reported nationally. This is due to the focus on having robust controls in place to deter fraud.

6.2. Internal Audit will continue to review individual fraud risk areas when preparing audit plans and undertake special investigations with outcomes reported to the Audit & Governance Committee.

7. Recommendations

7.1. The Audit and Governance Committee are asked to note the report.

Appendix 1: Position Statement against the fundamental counter fraud policies

	Policy	Date last reviewed	Action	Responsible Officer
1	Counter-fraud policy	March 2017	Next review February 2019	Chief Financial Officer
2	Whistleblowing policy	August 2018	Next review September 2019	Head of HR
3	Anti-money laundering policy	28 July 2018	Next Review 27 July 2019	Chief Financial Officer
4	Anti-bribery policy	Included in Counter fraud policy.	Next review February 2019	Chief Financial Officer
5	Anti-corruption policy	Included in Counter Fraud Policy.	Next review February 2019	Chief Financial Officer
6	Codes of conduct and ethics	Members' – July 2018	Next review July 2020	Monitoring Officer
		Officers' – updated October 2017	Next review October 2018	Head of HR
7	Gifts and hospitality policy and register	Policy included in Member Codes of Conduct. Policy and Register included in Officers' Code of Conduct	Next review July 2020	Monitoring Officer
8	Pecuniary interests and conflicts of interest policies and register	Included in Member and Officers' Codes of Conduct	Next review July 2020	Monitoring Officer
9	Information security policy	February 2017	Next review due September 2018	Information Governance and Compliance Manager
10	Cyber Crime and Security Incident policy.	Included in ICT Policy Suite – September 2017	Next review September 2018	Enterprise Architect

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE 21 SEPTEMBER 2018

INTERNAL AUDIT PROGRESS REPORT 26 JULY TO 31 AUGUST 2018

Recommendations

- 1. The Chief Financial Officer recommends that the Internal Audit Progress Report attached as an Appendix is noted.**

Background

2. The attached progress report summarises Internal Audit work undertaken since the Internal Audit Annual Report 2017/18 was reported to the Audit and Governance Committee on 26 July 2018.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: Ext 6268

Email: mhudson@worcestershire.gov.uk

Supporting Information

- Appendix - Internal Audit Progress Report.

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

This page is intentionally left blank



Internal Audit Progress Report

“Providing assurance on the management of risks”

Internal Audit Progress Report

“Providing assurance on the management of risks”

This report summarises the results of all audit work since the Internal Audit Annual Report to the Committee.

Summary of completed assurance work

The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls.

2017/18 Plan

Work has concentrated on completing the 2017/18 audits. The following audits previously reported in Quarter 1 of 2018/19 as draft to the Committee in the Internal Audit Annual Report have now been issued as final reports:

- Procurement (Moderate assurance)
- General Ledger Interface Controls (Substantial)
- Bank Reconciliation (Limited)
- Access Controls (Limited)
- Accounts Receivable (Limited)
- Business Ownership of Systems Assets (Limited)
- Highways Planning and Development (Substantial)

Management responses are either awaited or we are in the process of finalising the following audits which were included in the 2017/18 Annual report as either in draft or in progress:

- Brokerage (Substantial)
- Case Files Reviews (Limited)
- Health & Safety (Substantial)
- Payroll (Moderate)
- Learning Disability Services (Moderate)
- Domiciliary Care Billing and Charging (Substantial)
- Transport (Moderate)
- Performance Management (Moderate)

Work on the following audits has been substantially completed and we are in the process of preparing draft reports:

- Learning & Achievement Contract
- Regional Adoption Agency

- Starters & Leavers
- Transformation & Savings Plans
- Design Services
- Budget Management

A verbal update on progress since the time of writing will be provided at the meeting.

There have been no new limited opinion audits completed since the last report to Committee.

2018/19 Plan

As usual for this time of year a number of audits have started but as yet none have been finalised. The audits currently in progress are:

Adult Services

- Transition from Children to Adult Services
- Safeguarding

Children Families & Communities

- Safeguarding
- Looked after children – Placement and spend
- Foster care/payments
- Fort Royal Community Primary School
- Offmore Primary School

Economy & Infrastructure

- Waste
- Economic Growth and Investment

Public Health

- Commissioning and Contracting

Finance

- Treasury Management
- Pensions – Administration

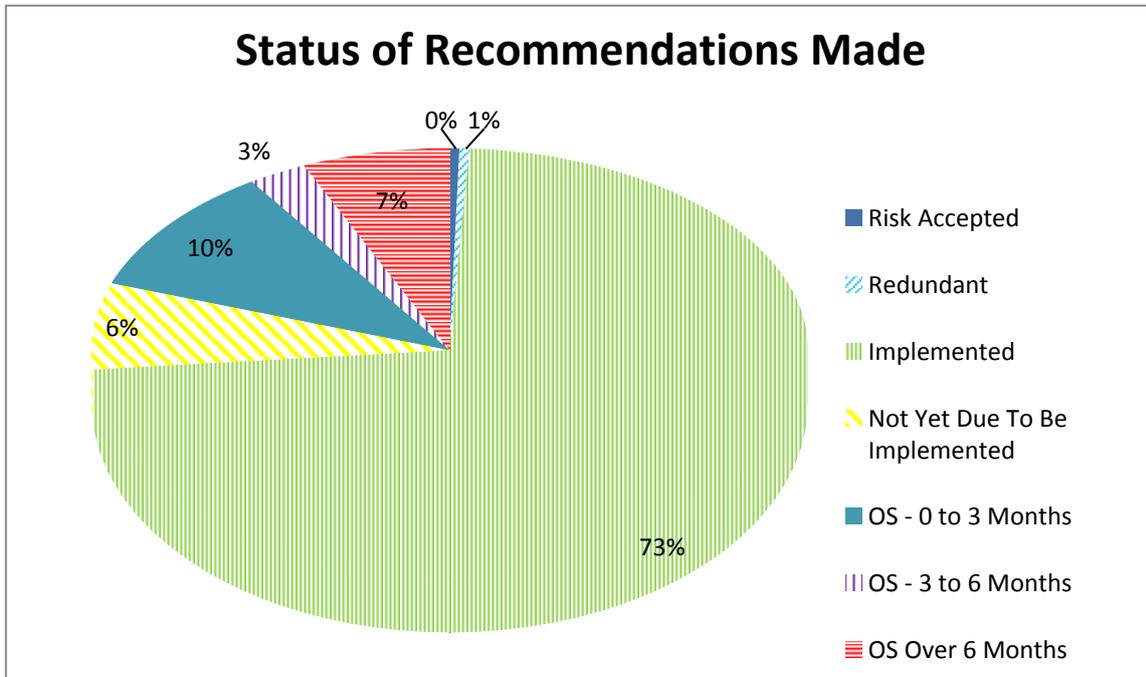
Recommendations

Recommendations

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance are: Merits Attention, Significant and Fundamental.

In total since 1st May 2015, when the shared service started, 391 recommendations have been made to address weaknesses in control which would otherwise not have been

identified. Of these 79 (38 as reported at the last Audit and Governance Committee) are overdue for implementation i.e. the target date agreed by the relevant manager at the conclusion of the audit has passed. 29 of these are overdue by more than 6 months (2 of these are classed as fundamental). Of the 79 overdue recommendations only 3 are classed as fundamental.



Appendix A summarises those audits which have overdue recommendations.

Arrangements for monitoring implementation of recommendations is being strengthened with the Chief Financial Officer receiving a report monthly of all outstanding recommendations which will be actively followed up with heads of service.

Summary of non-assurance work

Counter-Fraud

The size and complexity of the County Council means that some irregularities are inevitable and therefore, in addition to planned assurance work, a number of special investigations are needed each year. Internal Audit have been involved in one investigation since the last report to the Committee and that, together with a summary of all investigations during 2017/18, are included in the Counter-fraud Annual Report which is also on the agenda for this meeting.

Certification

The period saw the following grant claims requiring certification being audited satisfactorily by the required deadline.

- Growth Hub Funding To LEP
- Youth Justice Board Grant

Work has also been carried out to provide assurance that the Troubled Families claims submitted by Early Help and Commissioning is accurate.

An audit of the Kidderminster Trust Fund accounts has also been completed.

Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the period the service has provided an input to various corporate projects and this work is consistently welcomed by managers.

The following advisory work has been undertaken:

- **School Job Evaluation**

The School Finance Team requested some advisory work as they had some concerns regarding the job evaluation process for a senior member of support staff in a maintained school. Audit met with colleagues from Finance and reviewed the process followed to offer an Internal Audit perspective and suggest some control improvements that could be implemented.

- **Financial Assessments**

Internal Audit had previously completed an advisory review of financial assessments in 2017/18 for the former Director of Adult Services. There is an ongoing project on financial assessments and Internal Audit are contributing to this.

Internal Audit continues to attend regular meetings of various corporate groups and provides advice and guidance as required. These include the Corporate Risk Management Group, Alternative Delivery Model and the Frameworki Replacement Steering Group. The time commitment on the replacement of Frameworki is likely to be significant.

Reports for Publication

The following final reports will be published following consideration by the Chief Financial Officer of whether they would require redaction prior to publishing. It should be noted that to date only Internal Audit reports where an opinion has been given have been published.

- Procurement

- General Ledger Interface Controls
- Bank Reconciliation
- Access Controls
- Accounts Receivable
- Business Ownership of Systems Assets
- Highways Planning and Development

Published reports can be accessed by the following link:

http://www.worcestershire.gov.uk/info/20003/council_democracy_and_councillor_information/1076/internal_audit

Appendix A: Status of Outstanding Recommendations

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
Adult Services									
Hospital Discharges - Patient Flow Centre	3	0	0	1	0	0	2	0	N
Panel Process - Devolved decision making	6	0	0	4	0	0	0	2	N
Adults Case Files	6	0	0	3	0	0	0	3 (1 Fundamental)	N
Adults Commissioning and placement process	1	0	0	0	0	0	0	1	N
Mental Health S117 (2017)	4	0	0	3	0	0	0	1	N
Section 117	7	0	0	6	0	0	1	0	N
Continuing Health Care	5	0	0	0	2	3	0	0	N

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
Social Work Practice	1	0	0	0	0	1	0	0	N
Direct Payments – Adults	1	0	0	0	0	1 (Fundamental)	0	0	N
Commercial & Commissioning									
Place Partnership	8	0	0	6	0	1	1	0	N
Business Ownership of Systems & Assets	2	0	0	1	0	0	0	1 (1 Fundamental)	N / A (follow up audit undertaken)
ICT Infrastructure	16	0	0	10	0	0	0	6	N
Contract Management	11	0	0	0	7	4	0	0	N
ICT – Cyber Risk and Security	5	0	0	0	3	2	0	0	N
Information Management	6	0	0	3	0	0	1	2	Y
Project Management	6	0	0	3	0	3	0	0	Y

Page 100

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
ICT Software Licensing (16-17)	2	0	0	0	0	0	2	0	N
Economy & Infrastructure									
Bromsgrove Railway Station	4	0	0	3	0	0	0	1	Y
Flood Management	3	0	0	1	0	0	0	2	N
Transport Infrastructure Funding	6	0	0	5	0	0	0	1	Y
Childrens Services									
Direct Payments – Children (2016)	9	0	0	8	0	0	0	1	N
Direct Payments – Children (2017)	8	1	0	0	1	2	4	0	N
Connecting Families	5	0	2	1	0	0	0	2	N
Foster Payments	6	0	0	5	0	0	0	1	N

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
School Visits - St Catherine's CE Primary School	8	0	0	7	0	0	0	1	N
SEN(D) Transport	5	0	0	4	0	0	0	1	N
Finance									
Accounts Payable	7	0	0	0	3	4	0	0	N
BACS Releasing	2	0	0	0	0	2	0	0	N
Feeder Systems	4	0	0	0	3	1	0	0	N
Capital Expenditure	8	0	0	6	0	0	0	2	Y
Access Control	10	0	0	0	0	10	0	0	N
Bank Reconciliation	7	0	0	0	3	4	0	0	N
Pensions									

Audit	Number of Recommendations								
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Pensions admin, investment and governance	7	0	0	6	0	0	0	1	Y
Pensions Investment	3	0	0	0	2	1	0	0	N
	192	1	2	86	24	39	11	29	

This page is intentionally left blank

**AUDIT AND GOVERNANCE COMMITTEE
21 SEPTEMBER 2018****WORK PROGRAMME**

Recommendation

- 1. The Committee is asked to note its future work programme and consider whether there are any matters it would wish to be incorporated.**

Work Programme**14 December 2018**

Internal Audit Progress Report 2018/19
Corporate Risk Report
Statutory Accounts – Lessons Learned update
Update on Commissioning

15 March 2019

Internal Audit Progress Report 2018/19
External Audit Plan 2018/19
Internal Audit Plan 2019/20
External Auditor's Report
Review of Accounting Policies

25 July 2019

Internal Audit and Delegated Service Annual Report 2018/19
External Audit – Audit Findings Report
Annual Statutory Financial Statements for the year ending 31 March 2019
Annual Governance Statement
Auditor Report – Financial Standards
Internal Audit Risk Assessment and Plan 2019/20
Corporate Risk Report

20 September 2019

Internal Audit Progress Report 2018/19
Counter Fraud Report 2018/19

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report
Simon Lewis, Committee Officer
Tel: 01905 846621
Email: slewis@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Director of Commercial and Change) the following are the background papers relating to the subject matter of this report:

Agenda and Minutes of this Committee from December 2005 onwards