

# **Agenda**

## **Audit and Governance Committee**

**Friday, 15 March 2019, 10.30 am**  
**County Hall, Worcester**

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## 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 3<sup>rd</sup> 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, 15 March 2019, 10.30 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**

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1	<b>Apologies and Named Substitutes</b>	
2	<b>Declarations of Interest</b>	
3	<b>Public Participation</b> <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 14 March 2019). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	<b>Confirmation of Minutes</b> To confirm the Minutes of the meeting held on 14 December 2018. (previously circulated – pink pages)	
5	<b>Statutory Accounts 2018/19 - Accounting Policies</b>	1 - 2
6	<b>Corporate Risk Report - Education and Buildings</b>	3 - 12
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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Thursday, 7 March 2019

Item No	Subject	Page No

**AUDIT AND GOVERNANCE COMMITTEE**  
**15 MARCH 2019****STATUTORY ACCOUNTS 2018/19 – ACCOUNTING**  
**POLICIES**

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**Recommendation**

1. **The Chief Financial Officer recommends that the accounting policies for 2018/19 are approved.**

**Background**

2. The Statutory Accounts include the County Council's accounting policies. These are reviewed and updated on an annual basis to ensure that any new policies are incorporated, and existing policies are correct.

**Findings and actions**

3. We have completed a review of the 2017/18 accounting policies and amended some wording to assist in the clarity and reader's understanding of the policies.
4. Two new standards have required changes to our policies as detailed below.
5. IFRS 9 – Financial Instruments. The introduction of this standard has required amendments to our classification of financial assets and impairment calculations with regard to potential credit losses. The main change in the Statutory Accounts is in the financial instruments note where our investments in Malvern Hills Science Park and the Municipal Bonds Agency will be reclassified from Available for Sale assets to Fair Value Through Profit and Loss assets. Regarding our potential credit losses, we will review our provision at 31 March when the year-end trade debtor position is known.
6. IFRS 15 – Revenue from Contracts with Customers. This standard requires income to be recognised in our accounts when our performance obligation is fulfilled rather than on receipt of income. We have reviewed the relevant income streams and identified that in the majority of cases where the conditions of the standard are met, our accruals accounting policy means that income is recognised appropriately. The only income stream identified as not being accounted for in line with the new standard is deferred payments, relating to adult social care provision where charges are made against a client's property. We have been accounting for the income when the property was sold rather than as the service to the client is provided. At the end of 2017/18 we had a total charge of £3.2 million recorded as a debtor in our accounts. We will review this amount at 31 March and, if it is still material, will make the necessary accounting adjustments.

## **Contact Points**

### County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

### Specific Contact Point for this report

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## **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:

Accounting Policies 2018/19

## **AUDIT AND GOVERNANCE COMMITTEE**

### **15 MARCH 2019**

## **CORPORATE RISK REPORT – EDUCATION AND BUILDINGS**

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### **Recommendation**

- 1. The Audit and Governance Committee is requested to note the following report outlining in detail evidence of mitigation (current and planned) against the corporate risk areas of education and buildings.**

### **Background**

- The quarter two corporate risk report was presented at the last Committee meeting on 14 December 2018 (Minute no. 491 refers). In the report, six areas of risk were identified as red, and a further area was identified as amber (having previously been rated as red before mitigation). Two areas of red risk were new to the corporate risk report for quarter two:
  - Education – the risk associated with budget pressures and changes to school organisation, and SEND improvement
  - Management of the county estate – risk associated with an ageing estate and the programme of maintenance
- The Committee requested a more detailed overview of the red risks associated with Education and the Management of the County Estate to be presented to the next Committee meeting.
- Detailed reports describing the risks resulting from (a) and (b) above in more detail, along with a description of the current and planned mitigation activity are provided in Appendix 1 and 2.

### **Contact Points**

#### County Council Contact Points

County Council: 01905 763763

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#### Specific Contact Points for this report

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## **Supporting Information**

- Appendix 1 – Audit and Governance Committee Report – Buildings and Schools
- Appendix 2 – Audit and Governance Committee Report – Education

## **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:

Corporate Risk Quarter Two Report



## Appendix 1

### Audit and Governance Committee Detailed Risk Report – Corporate Buildings and Schools

#### Background

Due to an ageing estate an ongoing review of compliance has been carried out with some gaps being identified in relation to risk assessments and surveys. The identified work involves refreshing older surveys bringing them up to the latest standards as well as new surveys where required. As part of the capital works programme for 2018/19 a schedule of risk assessment and surveys has been initiated to close the gap. Once this initial programme has been completed any remedial and improvement works identified will be programmed for completion within the 2019/20 capital works programme.

#### Mitigation

A programme of work has now been identified by PPL to address current gaps where they are responsible to do so.

- A capital investment of circa £1m has been instructed to carryout risk assessment, survey and remedial works for the corporate estate excluding schools (Funded elsewhere).
- A detailed plan has been created to manage the project (Document embedded below).
- A working group has been set up to oversee the works which is currently meeting fortnightly to assess progress and expenditure.
- A review of on-site documentation to be undertaken.
- All schools surveyed. High risk asbestos removed, management and removal of residual asbestos ongoing. Education skills and funding agency (ESFA) asbestos mapping assurance process (AMAP) survey has been conducted.

#### Evidence of Mitigation

##### Non Schools Estate

A detailed plan has been created to manage the process of procuring the required risk assessments and surveys to be carried out before the end of March 2019 (Embedded below)

The figures below are correct as per the 18<sup>th</sup> February 2019

Item	Original Property Number	Latest Property Number	Scheduled for assessment FY 18/19	Complete	Balance to complete this Financial Year (Includes the additional properties)
Asbestos	99	111	94	47	64
Fire	95	85	84	64	21
Water	35	39	39	15	24

The original number of properties has changed due to additional buildings being acquired during the programme and the decision to include the assisted living properties. Although not commercial properties it has been decided to treat the assisted living properties in the same way due to nature of the occupants (16 to 18 yrs. of age) and the potential risk.

### **Schools Estate (PPL SLA)**

Maintained school's estate can procure these services from either PPL or any alternative provider, below is the position for the properties who have an SLA with PPL. It should be noted that the PPL SLA covers asbestos only with fire and water assessments arranged directly by the schools

Item	Original Property Number	Latest Property Number	Scheduled for assessment	Total to be surveyed this FY 18/19	Complete	Balance to complete this Financial Year
Asbestos	90	90	All schools have a survey. 17 are pre-2011 survey to be updated*	16	3	13
Fire	69	69	School arrange themselves. PPL are awaiting updated documents from the schools	34	17	26
Water	69	69	33 risk assessments require renewal	33	17	16

\*It is advised to update surveys carried out pre-2011 to meet current standards.

### **Schools Estate (PR Associates SLA)**

The table below shows the current compliance position for the maintained schools where risk assessments (Fire and Water) are managed by PR Associates

Item	Original Property Number	Latest Property Number	Scheduled for assessment FY 18/19	Complete	Balance to complete this Financial Year
Fire	40	40	5	1	4
Water	40	40	20	8	12

## **Update on Q2 risk report and future planned activity**

As previously mentioned there is in place a planned programme of works until the end of March 19 to complete the Risk assessments and surveys to close the gap identified. PPL are reporting that this will be achieved as planned. 2019/20 will see the continuation of the remedial works which result from the surveys. This will be an ongoing workstream. Once the surveys and risk assessments are completed a detailed plan of works to remediate any issues found will be generated for completion within the 2019/20 capital works programme. Funding for this programme has been secured.

## **Background Papers**

Corporate Compliance Survey Programme 2018/19

PR Associates Fire & Water Maintained Schools February 2018

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## Appendix 2

### Audit and Governance Detailed Risk Report – Education

#### Background

There are a number of conditions across the Education portfolio that present possible risks for the Local Authority.

Key risks include:

- i. The potential impact on school pyramids as a result of school organisation changes outside our control e.g. changes of age range. The result in the short term could be under recruiting in first and middle schools leading to a financial shortfall in school budgets. This may make certain schools unsustainable. The uncoordinated age range changes could also result in demand for additional Capital spend.
- ii. If schools are placed in special measures they automatically a sponsor and are transferred to Academy status. At this point the Local Authority becomes responsible for any deficit budget. The number of schools with significant deficit budgets continues to increase (As at last March 26 schools had set deficit budgets with a total value of £5.4m).
- iii. Significant proportion of expenditure is accounted for by externally commissioned services. There is a risk if not monitored, of poor value, inadequate service provision and data security and/or failure of externally delivered services, which could lead to disruption of service delivery and cost of mitigating strategies.
- iv. There is a risk of overspend in the Home to School transport budget.
- v. The High Needs block DSG is forecast to overspend by £9.015m, this overspend is offset by an additional grant (£1.232m) in 2018/19 and all DSG reserves (£5.232m) which leaves an overspend of £2.551m that cannot be met from DSG reserves. At this stage it is assumed that this can be met corporately.

The overall ratings which have led to this area being identified as a Red risk are as follows:

Probability	60% (possible)
Service Impact	15 (moderate)
Health & Welfare	5 (moderate)
Reputation	25 (severe)
Financial Impact	25 (severe)

#### Mitigation

- i. The Local Authority will continue to robustly present its case to the Regional Schools Commissioner to highlight the potential risks of uncoordinated changes to school pyramids.
- ii. Schools with significant deficit budgets are monitored and challenged by the School Finance Team reporting to the Chief Finance Officer. A whole school review is commissioned when appropriate.

- iii. Tight controls have been put in place to monitor service provision by commissioned services. This includes regular structure review meetings. Review meetings are reported to the senior leadership team and the commission and commercial board.
- iv. Corporate Transport Board in place chaired by AD Education & Skills to provide the strategic direction for the Demand Management element of home to school transport provision, ensuring key decision makers are linked and impacts of decisions are understood across Directorates. The key task is to have a high degree of confidence in demand forecasts and spend.
- v. SEND Improvement Action Plan has been agreed and Improvement Board established. There are five workstreams including:
  - The local offer
  - Embedding the graduated response
  - Assessment and planning
  - Joint commissioning and leadership
  - Workforce and engagement

The school forum has established a task and finish group to review the high needs scheme. An external specialist has been commissioned to work with the group to redesign the scheme within existing resources; however, this is a demand-based budget to meet statutory duties.

## Evidence of Mitigation

- i. Unfortunately despite robustly presenting the issues to the Regional Schools Commissioner a proposal to make changes in the Pershore area was upheld. There may be a knock-on effect from this judgement. There has however been a change of Personnel at the RSC and we will continue to push our case. We will also continue to lobby Head teachers forums to highlight the related issues.
- ii. Two school curriculum reviews have taken place to validate and redesign the curriculum to optimise teaching hours and class sizes.
- iii. Performance indicators have been set and are being monitored. Performance has improved and can be demonstrated.
 

Transport Managers continue to work with SEND officers to identify the in-year demand and future profile of transport needs. The reduction in overspend has increased by a further £66k this month. With the total forecast for 2018/19 now £381k down from £447k.
- iv. The SEND improvement plan is subject to external monitoring by the Department for Education and NHS England. The most recent evaluation demonstrated progress against the plan. The Children's scrutiny panel will scrutinise the SEND improvement plan on the 6<sup>th</sup> March.

## Update on Q2 risk report and future planned activity

- i. Remains a significant risk.
- ii. Continue to increase. Ultimately the deficit is the responsibility of the Council.
- iii. The adoption of a One Worcestershire approach and the introduction of tighter monitoring procedures has created greater visibility of service provision. This has led to a significant reduction in the level of risk in this area.

- iv. Reducing risk.
- v. Increasing risk.

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**AUDIT AND GOVERNANCE COMMITTEE  
15 MARCH 2019****INTERNAL AUDIT PROGRESS REPORT -  
1 NOVEMBER TO 28 FEBRUARY 2019**

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**Recommendation**

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 from 1 November to 28 February 2019 for consideration by the Committee.

**Key issues to note**

3. The main issue Committee have had particular focus on is the progress of recommendations. The attached report sets out that the total of recommendations outstanding have fallen by 2%, and the majority of request for responses were received, although four schools have yet to respond which account for 83% (24 out of 29) of recommendations outstanding without an update. So in total 82 recommendations have passed the original planned date of implementation.
4. The IA report identifies that last time there were 67 recommendations outstanding as reported to the December Committee compared to the 82 noted in the last paragraph - that does not mean the position per se has deteriorated, rather that more recommendations due 31<sup>st</sup> December 2018 to 28<sup>th</sup> February 2019 have fallen outstanding.
5. The following table summarises the split by period due and body:

**Table 1 – Recommendations overdue by period and body**

	0-3 months	3-6 months	+6 months	Total
Council recommendations with no responses from managers	4	1	1	6
School recommendations with no responses	19	4	1	24
Council recommendations with responses from managers	23	11	18	52
<b>Total</b>	<b>46</b>	<b>16</b>	<b>20</b>	<b>82</b>

6. What this has allowed is an in detail review of responses, and there are a number of key issues that have been identified from this:

- 72% of recommendations, whilst overdue per the original date, are due to be completed by the end of the financial year
- 18% by September 2019, and
- 9% after September 2019.

7. Of these 93% will have been actioned within 6 months of the original planned deadline.

8. Further review has identified a number of causes for this slippage:

- Managers were over optimistic in the implementation date compared with resources actually involved and other tasks
- There were in a few cases an absence of management in the service when the dates were set and new leadership caused the actions to be re-thought
- Deadlines involved third party partners and were set without direct agreement with that party and since slippage was identified.

9. As a result, all recommendations have undergone a review with the relevant Director and Internal Audit to set a new implementation date. The majority (72%) of these are within the next 3 months before the next Audit Committee. Six recommendation deadlines to implement have been pushed back by over a year from the original date, and in one instance 2 years (IT). These are in:

- IT (3) recommendations relating to disaster recovery strategy implementation that are being managed in different ways for now until full movement to cloud facilities
- Contract management relating to new strategy which is still in progress following new leadership (2 recommendations), and
- Children's direct payment recovery strategy that was delayed due to the scale of work in the service (1 recommendation).

10. These resets by 12 months have arisen as subsequent changes of direction, and no resource having picked the action up due to interim management. The Directors have confirmed that the revised dates are realistic and the acceptance of risk over the implementation originally scheduled is the necessary decision.

11. Lessons need to be drawn from this more detailed analysis and fed into the future audits, these are:

- Where reports are signed off by interim management / leadership then the timescale for completion should be subject to further review by the CFO and Chief Executive
- Implementation dates should only be reset once after due consideration and agreement with IA and the CFO
- Any resetting of deadlines should be reported quarterly to the Committee with explanations of acceptance of slippage and further lessons to learn

- The key performance indicators should reflect the monitoring of implementation (see the IA Audit Plan elsewhere on the same agenda).

12. As a result it is not proposed that any Directors or Heads of Service are asked to attend the Audit and Governance Committee but that a further update report be considered at the July meeting.

13. Going forward the IA team will include an administrator post to chase recommendations and ensure Directors have agreed the timetable is reasonable.

## **Contact Points**

### County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

### Specific Contact Points for this report

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## **Supporting Information**

- Appendix - Internal Audit Progress Report.

## **Background Papers**

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

Previous quarterly update reports to the Audit and Governance Committee.

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## **Internal Audit Progress Report March 2019**

"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 last progress report to the Committee in December 2018.

### 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.

Table 1 summarises the results of the assurance work completed during the period showing the opinion given.

**Table 1: Summary of completed audits**

Audit		Level of Assurance
<b>Adult Services</b>		
1	Safeguarding	Substantial
2	Transitions – Children to Adults	Substantial
<b>Children Families &amp; Communities (CFC)</b>		
3	Looked After Children- Placement and Spend	Substantial
4	Foster Payments	Substantial
5	School Themed Audit: Budget management, payroll, procurement, ordering and creditor payment processes	Limited
6	School Themed Audit – Schools in Financial Difficulties	Limited
<b>Economy &amp; Infrastructure</b>		
7	Design Services	Substantial
8	Approval of Development	Substantial
9	Transport (incl SEND)	Moderate
<b>Commercial &amp; Change</b>		
10	Performance Management	Substantial
<b>Corporate</b>		
11	Transformation & Savings Plans	Moderate
<b>Finance</b>		
12	Bank Reconciliation	Moderate
13	Pensions – Administration	Substantial

Audit		Level of Assurance
<b>Local Enterprise Partnership</b>		
14	WLEP – Assurance Framework	Substantial

Two of these audits the School Themed Audits on Budget management, payroll, procurement, ordering and creditor payment processes, and Schools in Financial Difficulties have been given a limited opinion. These audits were considered by Strategic Leadership Team on 5<sup>th</sup> March 2019 and a summary of the key issues arising is given in Appendix A.

### **Draft reports have been issued in respect of the following audits:**

#### **Children Families & Communities**

- Learning & Achievement

#### **Finance**

- Accounts Payable

The above audits are still at draft stage but Accounts Payable is expected to be given a limited opinion.

### **The audits currently in progress are:**

#### **Children Families & Communities**

- Alternative Delivery Model

#### **Commercial & Commissioning**

- Corporate Governance
- Procurement
- IT Governance
- Cyber Security
- Data Centre Security

#### **Finance**

- General Ledger
- Payroll
- Accounts Receivable
- Annual Governance Statement
- Pensions Investments

#### **Other**

- Counter Fraud governance arrangements

## 2017/18 Plan

Work has continued on completing the 2017/18 audits. The following audits previously reported as draft or in progress in the 2017/18 Annual Report have now been issued as final reports:

- Design Services
- Transport
- Transformation & Savings Plans

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

- Adoption
- Learning & Achievement Contract

The findings from the Starters & Leavers audit are to be combined with the current Payroll report.

Whilst getting engagement has always proved difficult and was flagged in the EQA report earlier this year it appears to be an increasing problem resulting in delays in obtaining agreement to terms of reference and draft reports despite escalating as appropriate.

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## 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, 631 recommendations have been made to address weaknesses in control which would otherwise not have been identified. Of these 82 (67 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. Of these:

	0-3 months	3-6 months	+6 months	Total
Council recommendations with no responses from managers	4	1	1	6
School recommendations with no responses	19	4	1	24
Council recommendations with responses from managers	23	11	18	52
<b>Total</b>	<b>46</b>	<b>16</b>	<b>20</b>	<b>82</b>

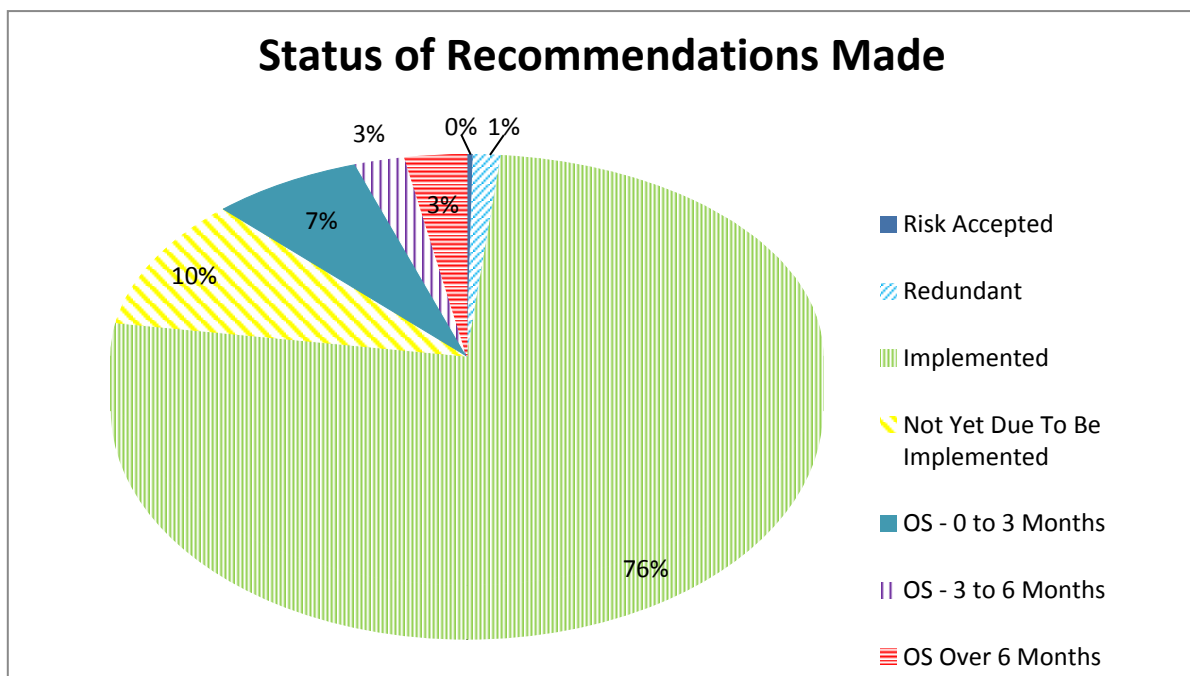
Three percent (20) of the total recommendations raised are thus overdue by more than 6 months, however none of these are classed as fundamental. Four of the recommendations classed as fundamental remain outstanding by less than 3 months.



The Committee will note that for overdue recommendations we have not received a response to our requests for information on the status of implementation in relation to 29 recommendations. Of those 24 relate to schools. This relates to nine audits (4 School and 3 Council). It is therefore possible that some of these recommendations have been implemented.

The level of audit recommendations still to be implemented (13% of all recommendations raised since 2015) is a 2% improvement since the December 2018 Audit and Governance Committee Report and the number of managers actively working to address these recommendations has improved.

The Chief Financial Officer is currently reviewing with Directors the implementation dates for some of the outstanding recommendations.



Appendix B summarises those audits which have overdue recommendations.

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## 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 and since the last report the following investigations have been completed:

- **School A**

An audit review was conducted after a number of concerns were brought to Internal Audit's attention by School's Finance with regard to financial management within the School. Weaknesses identified included:

- Inappropriate expenditure transactions processed through the delegated budget;
- Procurement card purchases have been delivered to other addresses, without controls in place to ensure items are received into the School;
- Procurement card purchases are not subject to any independent review or authorisation;
- The School does not have in place an approved Finance Policy outlining the framework of controls within which the delegated budget should be managed;
- Governors have not completed a signed declaration of interests form since 2015 and the arrangements for interests to be declared do not cover relevant School staff;
- Staff salary reconciliations are not conducted to ensure the right individuals are paid the right amounts;
- There is no audit trail in place in respect of income received and income has not been banked regularly, allowing amounts to be built up, exceeding the School's insurance limits;
- There is no evidence that the 2018/19 budget plan was ratified by Governors;
- The School is not registered with the Information Commissioner for Data Protection purposes;
- A private fund bank account is open for contributions being collected for a charity, however these contributions have not been passed on to the charity.

A response to the draft report has been received from the Chair of Governors, and a final report issued. The individual who made inappropriate expenditure transactions has left the school and has repaid some of the monies identified.

- **School B**

An audit review was conducted after a number of concerns were brought to Internal Audit's attention by School's Finance with regard to financial management and administration within the School. The School operated a nursery and other extended school services having taken over the adjacent children's centre, however the headteacher had identified that income had not increased to the levels expected by the increased chargeable services provided by the school. The audit review, which included the assistance of a colleague from finance, highlighted a number of errors (over 20) on debtor invoices which resulted in the need to cancel or amend invoices issued. The School had also been issuing debtor accounts in arrears for pre-school fees. Given pre-school places are agreed in advance, it would have been appropriate to issue these debtor accounts in advance and request that they are also paid in advance to reduce the risk of build up of arrears and/or non payment of fees. These and other issues were raised with the headteacher and the school has shown a commitment to bring about the improvements required and the disciplinary process is ongoing.

## **National Fraud Initiative**

Internal Audit also co-ordinated the submission of data to the National Fraud Initiative. Results have been issued to the appropriate teams for investigation of the matches.

## **Certification**

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

- Regional Growth Fund - Confirmation to the Secretary of State for Business, Innovation and Skills of the number of jobs created

Work has also been carried out to improve our review process of the increased number of Troubled Families claims submitted by Early Help and Commissioning. We continue to review on a rolling programme 10% of the claims to provide assurance that the claims submitted are accurate.

## **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.

Since the last Progress Report, the following advisory work has been undertaken:

- **Pre- School Provision**

Advice was sought from a headteacher regarding a school's pre-school provision for which a separate bank account was held. Advice was provided around processes for receiving and accounting for income relating to the pre-school and the need to account for all income and expenditure within the delegated budget. It was agreed that the separate bank account would be closed and all activities brought under the delegated budget and the school's existing controls.

- **IR35 – SEND**

From the sample of payments reviewed for the audit of Accounts Payable, a payment to an individual engaged by a parent who had been provided with a personal budget to secure SEN provision for her son was identified. This highlighted potential HMRC (IR35) implications regarding the payments being made in this instance and more widely in respect of SEND payments. Audit have since worked with the SEND Team, including attendance at the SEND Management Team to offer further advice on how to manage this process.

- **School Journal Adjustments**

Assistance was requested in relation to Journal / Internal transfers between schools. Specifically, this was around what approvals, if any, should be provided. Advice given was that schools need to comply with the limits of delegated financial authority which are in place within each school and that there needs to be a full audit trail in place to support journals and internal transfers, including documented records of approvals for internal transfers between schools.

In addition to the above, 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; Internal Audit is also attending meetings relating to the Finance Improvement Plan as part of the Communication and Training work stream.

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## **Plan changes**

The Council continues to face significant level of change and the audit plan has to be responsive to changes in risks. In year changes to the plan to reflect changed circumstances are accepted best practice. Taking into account our regular discussions with Directors a number of changes are now proposed.

A contingency allocation was included in the 2018/9 plan to cater for unplanned work. This allocation has already largely been used and in addition, because of the external scrutiny of Children Services following the Ofsted and SEND inspections, it is appropriate to defer a number of audits are no longer needed as the audits would not at this time add any value.

The time commitment on the replacement of Frameworki is likely to be higher than planned and there is no provision for work on control implications of the Finance Improvement Programme. It is considered that time would be better spent on advisory work on these initiatives rather than undertaking audits of existing processes which will be changing.

There are also some audits needing to be pushed back, to allow time for the recommendations from previous audits to be embedded. We also need to take into account maternity leave experienced by the team and staff leaving the audit team.

Taking all factors into account it is proposed that the following audits are deferred and considered for inclusion in the 2019/20 plan:

- Care Packages /Urgent Care
- Direct Payments (Adults)
- Safeguarding (Children's)
- Early Help effectiveness
- Waste Management
- Liberata Contract
- Delivery of Budget reductions
- Collaborative planning

- Medium Term Financial Planning
- HR Strategy/Policy development and compliance
- Information Management

The deferral of all the above audits has been agreed with the Chief Financial Officer and at this stage we do not envisage any further work requiring deferral.

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## **Reports for Publication**

The following final reports will be published by the Council 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.

- Safeguarding
- Transitions – Children to Adults
- Looked After Children - Placement and Spend
- Foster Payments
- School Themed Audit: Budget management, payroll, procurement, ordering and creditor payment processes
- School Themed Audit: Schools in Financial Difficulties
- Design Services
- Approval of Development
- Transport (incl SEND)
- Performance Management
- Transformation & Savings Plans
- Bank Reconciliation
- Pensions – Administration
- WLEP – Assurance Framework

Published reports can be accessed by the following [Link](#)

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### Summary of Limited Assurance Audits Not Previously Reported to Committee

#### School Themed Audit: Budget management, payroll, procurement, ordering and creditor payment processes

A sample of schools, excluding academies was visited to review the following areas:

- Processes which enable the timely production of the budget and the continuous monitoring of the budget against the approved budget plan.
- Processes which ensure only legitimate employees are paid and payments are for the right amounts and properly approved.
- Contracts are awarded in accordance with EU Directives, UK Regulations, Contract Standing Orders and the Council's procedures and the award of contracts is subject to appropriate, documented approvals.
- Value for money can be demonstrated in the award of all contracts.

Weaknesses identified include:

- There is a lack of division of duties between instigating the creation of/amendments to payroll records; entry and approval of payroll claims; and checking/reconciling payroll payments. This exposes schools and the Local Authority to the risk of fraudulent and/or erroneous payments which are not detected.
- 3 of 5 schools in the sample did not have an approved Finance Policy in place, outlining the framework of internal controls within which the budget should be managed.
- In 3 of 5 schools there was no record that the Governing Body had ratified the latest budget plan and in 2 schools, there was no clear connection between the budget setting process and the priorities of the School Development Plan.
- Instances were found where there was a poor audit trail regarding budgetary monitoring and reporting.
- A total of 50 paid supplier invoices was examined and in 35 (or 70% of) cases, a purchase order was not raised and approved in advance.
- From a sample of contracts awarded, at 3 of the 5 schools, they were unable to demonstrate that an appropriate procurement process had been conducted to ensure value for money was obtained.
- 3 of 5 schools did not undertake effective staff salary reconciliations.
- Responses provided to questions which form part of the annual Schools Financial Value Standard were inaccurate in the case of some of the schools visited.

Assurance has been given that the Local Authority will highlight the common themes emerging from the audit to all schools to enable schools to ensure they have appropriate controls in place.

## School Themed Audit: Schools in Financial Difficulties

The audit concentrated on those controls operated by the Council in monitoring and supporting schools with deficit budget plans.

- The arrangements to identify schools with deficit budgets and for subsequent support and monitoring.
- Controls to ensure deficits do not increase and plans to eliminate deficits.
- Arrangements which ensure budget plans are realistic and do not understate projected deficits.
- Appropriate controls and/or restrictions are in place regarding expenditure decisions, including purchases and staff appointments.

Weaknesses identified include:

- From a sample of 6 schools with deficit budgets, in each case they had not provided the required number of budget reports and governing body minutes that they agreed to as part of the conditions of the deficit budget plan approval process. In 3 cases, no budget reports had been provided to the Council in the financial year to date.
- For those schools that had provided some of the required budget reports, in one instance the projected deficit had increased by £7k, but this had not been discussed with the school concerned and actions agreed to contain the deficit. In another case, a budget report provided did not include any outturn figures, but again this had not been queried with the school concerned. It is important information provided by schools is thoroughly reviewed and followed up with the school if appropriate.
- Some of those schools submitting deficit budget plans have not provided detailed information, such as longer term budget plans, demonstrating how they intend to return to a balanced budget.
- No monitoring arrangements are in place within the Council to ensure that schools with deficit budgets are complying with the conditions they agreed to when submitting their budget plan, such as for budget virements, staff appointments and changes to employee contracts.
- It is apparent that Liberata have not delivered on their responsibilities under the contract service specification with regard to communicating “with LA Officers where schools predict a deficit outturn in order to enable them to return to a balanced budget.” The controls designed to identify schools with financial difficulties are therefore not operating effectively.

## Appendix B: Audits with Overdue Recommendations at 31 January 2019

Page 2 of 6

	Number of Recommendations								
Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			February Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Adult Services									
Continuing Health Care	5	0	0	3	0	0	1	1	N
Direct Payments – Adults	5	0	0	4	0	0	1	0	Y
Adults Case Files	7	0	0	1	3	3	0	0	Y (Part)
Social Work Practice	2	0	0	1	0	1	0	0	N
Mental Health s75 agreement	12	0	0	2	0	10	0	0	Y
Commercial & Commissioning									
ICT Infrastructure	16	0	0	15	0	0	0	1	Y



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	Number of Recommendations								
Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			February Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Contract Management	11	0	0	4	0	3	1	3	Y
ICT – Cyber Risk and Security	5	0	0	3	0	2	0	0	Y
Information Management	6	0	0	3	0	0	0	3	Y
ICT Software Licensing (16-17)	2	0	0	0	0	0	0	2	Y
Agency Staffing	7	0	0	6	0	0	1	0	Y
Procurement	14	0	0	9	0	2	3	0	Y
Health and Safety	5	0	0	0	1	1	2	1	Y
ICT Disaster Recovery Arrangements	4	0	0	1	0	3	0	0	Y

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	Number of Recommendations								
Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			February Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Economy & Infrastructure									
Design Services	9	0	0	6	2	1	0	0	Y
Childrens Services									
Direct Payments – Children	8	0	1	1	0	0	0	6	Y
Foster Payments	6	0	0	5	0	0	0	1	Y
School Visits - St Catherine's CE Primary School	8	0	0	7	0	0	0	1	N
School Visits - Lindridge	8	0	0	7	0	0	1	0	N
School Visits - Offmore Primary School	15	0	0	12	0	0	3	0	N
School Visits – School A	19	0	0	0	0	19 (4 fundamental)	0	0	N

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	Number of Recommendations								
Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			February Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Finance									
Accounts Payable	7	0	0	6	0	0	1	0	Y
Feeder Systems	6	0	0	5	0	0	1	0	Y
Capital Expenditure	8	0	0	7	0	0	0	1	Y
Treasury Management	2	0	0	1	0	1	0	0	Y
Pensions									
Pensions Investment	3	0	0	2	0	0	1	0	Y
	200	0	1	111	6	46	16	20	

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **15 MARCH 2019**

## **EXTERNAL AUDIT – AUDIT PROGRESS REPORT AND SECTOR UPDATE**

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### **Recommendation**

1. **The Committee is asked to note the content of the External Audit – Audit Progress Report and Sector Update as set out as an Appendix.**

### **Background**

2. Grant Thornton, the Council's external auditor has produced an Audit Progress Report and Sector Update which is set out as an Appendix. This report has not been brought to the Committee before but the External Auditor felt that it would be helpful for the Committee to receive a position statement at this meeting.
3. Peter Barber and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

### **Contact Points**

#### County Council Contact Points

County Council: 01905 763763

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#### Specific Contact Points for this report

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### **Supporting Information**

- Appendix - External Audit Report – External Audit – Audit Progress Report and Sector Update

### **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.

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# Audit Progress Report and Sector Update

Worcestershire County Council and Pension Fund  
Year ending 31 March 2019

15 March 2019



# Contents

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# Introduction



**Peter Barber**

**Engagement Lead**

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



**Helen Lillington**

**Engagement Manager**

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Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications

[www.grantthornton.co.uk](http://www.grantthornton.co.uk) ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at February 2019

## Financial Statements Audit (Council)

We have completed our planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

As agreed with officers our first interim visit was undertaken during mid January for 2 weeks. This visit focused on updating our understanding of the Council. In particular we reviewed the control environment, work of internal audit and documented the key business processes. We also discussed with officers progress on the key issues arising from the audit last year.

On conclusion of the first interim visit we left officers with some key points to consider in preparation for the second interim visit which is scheduled for 2 weeks in late March. These were as follows;

- Officers have explained the revised arrangements in place for the valuation of assets, which was identified as an area for improvement from the prior year. Some progress has been made in addressing the key issues raised, and finance officers are planning to complete a lot of this work earlier than in prior years. We have agreed with officers that the second interim visit will include a review of the valuation work completed and that the working papers provided will demonstrate how officers are gaining assurance on the valuation of assets that haven't been revalued in the current year.

We reviewed the progress that has been made on the reports from the financial system, specifically the monthly reports on income and expenditure. In reviewing these we noted that the monthly position is still made up of a large number of debit and credit balances, which will result in the need to test a larger number of items than we would expect with a 'cleaner population'.

Work is ongoing in this area, and we have agreed that revised reports will be made available in advance of our second interim visit to enable samples to be selected for early substantive testing.

We have discussed the key areas of work to be included in our second interim visit with officers and agreed the working papers that need to be provided. A key focus of this second interim visit will be early substantive testing. This will be the first opportunity for the audit team to identify whether improvements have been made in the quality of the information provided to support detailed transactions. We will ensure any feedback from this visit is provided promptly to the Director of Finance, particularly if improvements are needed in preparation for the final accounts audit which is scheduled to begin on the 28<sup>th</sup> May.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan which we presented to the committee in December.

At the time of writing this report, work has begun on the three VFM risks that we identified. The following bullet points provide a brief summary of the work completed to date.

### • Children's services

- ✓ We have reviewed the latest monitoring publication produced by Ofsted and noted the progress made by the Council.
- ✓ We have reviewed the reports made to members on the formation of the ADM in Children's services and discussed with officers recent progress.

### • Financial Sustainability of the Council

- ✓ We note the latest monitoring report at month 9 is projecting an overspend of £3.1m for 2018/19.
- ✓ We have reviewed both the December and February budget report prepared for members
- ✓ We have met with officers to discuss the arrangements for preparing the budgets and identifying savings
- ✓ We have reviewed the regular budget monitoring reports prepared for the senior leadership team up to date.

### • Commissioning arrangements

- ✓ We have reviewed the commissioning updates that have been provided to members, including the papers that have been produced for the Corporate and Communities Overview and Scrutiny Board
- ✓ We have met with senior officers to discuss the progress made in reviewing the arrangements in place and addressing the findings from our previous work on the Value for Money Conclusion.

We will continue our work on the Value for Money Conclusion as part of our final interim visit which is planned in the second half of March. We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

# Progress at February 2019

## Financial Statements Audit (Pension Fund)

We have completed our planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Fund's 2018/19 financial statements.

As agreed with officers our first interim visit was undertaken during mid February for 1 week. This visit focused on updating our understanding of the Fund. In particular we reviewed the control environment, work of internal audit and documented the key business processes. We also discussed with officers progress on the key issues arising from the audit last year. We have also completed some interim testing on benefit payments including lump sums. We have received the reports for the journal population, and would look to complete some early testing in this area during the interim visit in March.

There most significant issue for officers to consider during the closedown of the pension fund financial statements is the accuracy of the valuation of the pension fund investments at the period end. In particularly, those level three investments that historically have been valued using the actual market values at the end of December and then rolled forward using an estimate of movements for the final quarter of the financial year. Given the potential uncertainty around the market at year end, officers will need to ensure they have considered all factors when arriving at the year end valuation, this may require greater consultation with fund managers and the custodian than prior years to ensure that the valuation is materially correct. We will be seeking evidence that the pension fund have considered this as part of our year end working paper request.

We have not reviewed any of the reports from the financial system in relation to the pension fund, however it is important that the issues identified from our review on the County Council accounts is considered and the points addressed so that they are not an issue for the closure and audit of the pension fund financial statements. As for the County Council, we will provide a detailed schedule of working papers that are required for the year end audit. Officers and members will be aware that we raised concerns over the quality of the working papers to support the pension fund financial statements last year. Arrangements have been put in place across the finance team to improve the quality of working papers, we shall report back on the progress made in this area as part of our Audit Finding Report in July 2019.

## Other areas

### Meetings

We met with Finance Officers in February as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive and Leader of the Council in October to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our most recent event was our Financial Reporting Workshop which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts. Members of your Finance Team attended the event held in Birmingham on the 31 January.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

### PSAA Contract Monitoring

Worcestershire County Council and Pension Fund opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psaa.co.uk](http://www.psaa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the attached presentation. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter for Council and Pension Fund</b> Confirming audit fee for 2018/19.	April 2018	Complete
<b>Council Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	December 2018	Complete
<b>Pension Fund Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Fund's 2018-19 financial statements.	December 2018	Complete
<b>Interim Audit Findings (Council and Pension Fund)</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Complete
<b>Audit Findings Report (Council and Pension Fund)</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due

# Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

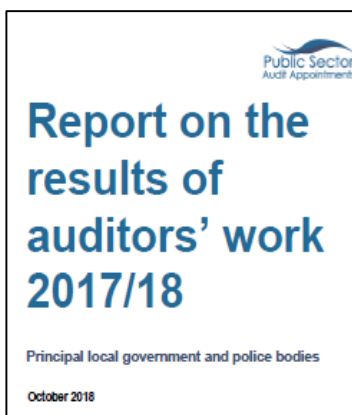
The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## PSAA Report

### Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



# National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

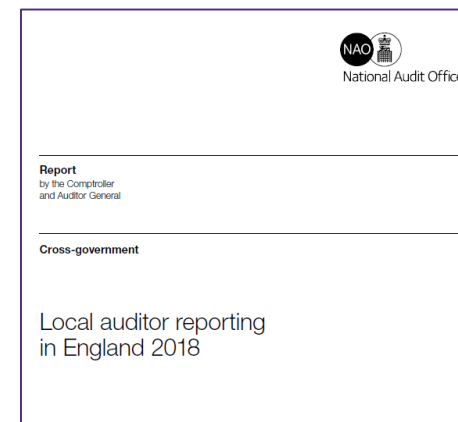
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



## NAO Report

### Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?





# National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

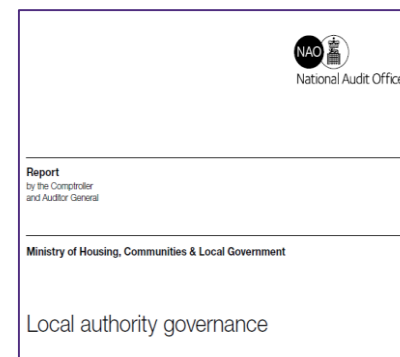
The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

## NAO Report

### Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?





# CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

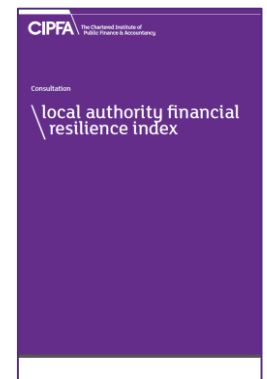
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

## CIPFA Consultation

### Challenge question:

Has your **Head of Finance** briefed members on the Council’s response to the Financial Resilience Index consultation?



# ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

### • Short-term solvency vs. Longer-term value:

LG & NHS: Facing financial pressures, oversight & governance pressures

### • Limited usefulness of auditors reports: 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'

### • Other powers and duties: implementing public interest reports in addition to VFM

### • Restricted role of questions and objections: Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.

### • Audit qualification not always acted on by those charged with governance: 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'

### • Audit committees not consistently effective: Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.

### • Decreased audit fees: firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.

### • Impact of audit independence rules: new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role

### • Other stakeholders expectations not aligned with audit standards

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Future financial viability of local public bodies

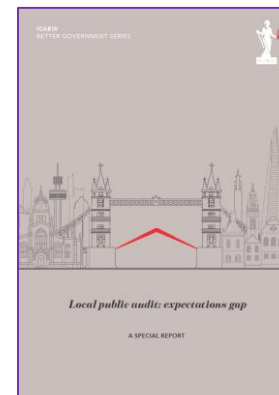
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

## The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



## The expectations gap

### Challenge question:

How effectively is the audit meeting client expectations?



# Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

## What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

## How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

# Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

## Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

## Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

## Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

## Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

**Your organisation** – including considerations on workforce, funding, and changes to legislation

**Your services and suppliers** – ensuring that critical services are protected and building resilience within supply chains

**Your place** – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

## Brexit

### Challenge question:

How well advanced are your authority's plans for Brexit?



# Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

## Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

## Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

## The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



# National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

**Financial challenges** – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

**Culture and structure** – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

**Strategic issues** – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

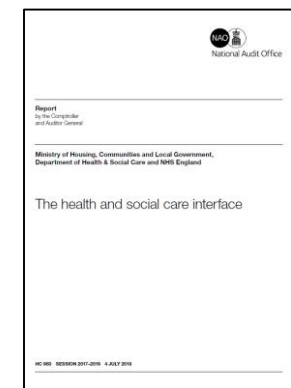
This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:  
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## The health and social care interface

### Challenge question:

Has the **Audit Committee** considered the 16 challenges to joint working and what can be done to mitigate these?





# A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

## Scoping Sprint (Oct 2018)

Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council) the subsequent debate identified three themes for Grant Thornton to take forward:

1. Ethics and philosophy: What is meant by care? Should the state love?

2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

## Sprint 1 – What do we really mean by 'Care'? (Dec 2018)

Julia Unwin, Chair of the Civil Societies Futures Project, and Sam Newman of Partners4Change sparked debate on why we need society to be brave enough to talk about care and the different levels at which 'care' can be applied to create a Caring Society.

## Sprint 2 – A new role for the state? (7 Feb 2019)

Donna Hall, CEO of Wigan Council and Andrew of Reform, will start the debate on how can the state – nationally and locally – develop and adapt itself to be in service to a caring society.

### To find out more or get involved:

- Join the conversation at #acaringssociety
- [Why we need to create a caring society](#)
- [Creating a caring society – the start of the debate](#) – the key themes from our first round table
- [Social care must take the starring role in its own story](#) – why the definition of social care is so important if the system is to change
- [Markets, trust & governance](#) – how social care can evolve to become a driver of local care economies
- [The future care leader](#) – Fiona Connolly, director of adult social care at Lambeth, discusses the importance of local care leaders working across the entire health system

### Challenge question:

How is your authority engaging in the debate about the future of social care?



# Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



Grant Thornton

Challenge question:

How effective is the Council's engagement with the social care sector?





# In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

## Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

## Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

## Choosing the right company model

The most common company models adopted by councils are:

Wholly  
owned

Joint  
Ventures

Social  
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

## Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

## LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

## National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

## Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728722/BRR\\_Pilots\\_19-20\\_Prospectus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf)

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

## Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## Our team

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*"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".*

*Director of Finance, local audited body*

## Local Government audits 2018/19 and beyond

### Grant Thornton's External Audit commitment

Audit 2018/19

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

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*"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."*

Director of Finance, County Council

## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
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## **AUDIT AND GOVERNANCE COMMITTEE**

### **15 MARCH 2019**

## **EXTERNAL AUDIT PLAN – INFORMING THE AUDIT RISK ASSESSMENT FOR WORCESTERSHIRE COUNTY COUNCIL AND PENSION FUND**

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### **Recommendation**

1. **The Committee is asked to note the content of the External Audit Report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund as set out as an Appendix.**

### **Background**

2. Grant Thornton, the Council's external auditor has produced an external audit report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund which is set out as an Appendix.
3. Peter Barber and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

### **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](mailto:mhudson@worcestershire.gov.uk)

### **Supporting Information**

- Appendix - External Audit Report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund – To follow

### **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.

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **15 MARCH 2019**

## **INTERNAL AUDIT PLAN 2019/20**

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### **Recommendations**

- 1. The Chief Financial Officer recommends that the Internal Audit Plan for 2019/20 and the revised Internal Audit Charter are approved.**

### **Background**

2. Members will recall the update provided at the last Audit and Governance Committee regarding the transfer back in house of the Internal Audit Service. As part of that transfer the Chief Financial Officer undertook to present the 2019/20 Internal Audit Plan to this Committee.

### **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](mailto:mhudson@worcestershire.gov.uk)

### **Supporting Information**

- Appendix - Internal Audit Plan 2019/20 with appended Internal Audit Charter.

### **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:

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## Internal Audit Plan - 2019/20

### 1 Executive summary

- 1.1 In maintaining and providing assurance for the Annual Governance Statement the Council employs the three lines of defence model. The third line of defence being Internal Audit. As part of that process and in line with statutory requirements Internal Audit draw up an Annual Audit Plan. This document summarises the proposed plan for 2019/20.
- 1.2 The role of Internal Audit is to provide an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.3 The Audit Plan has been drawn together from a number of assessments, including:
- risk and actions aligned to the Council's Corporate Plan;
  - the Council's Corporate Risks, Appendix 1 sets out how this Plan supports the mitigation of these risks;
  - the wider risk environment;
  - direction to areas of focus as part of the three lines of defence assessment by Chief Officers and the Wider Leadership Team;
  - previous levels of assurance, as Internal Audit is required to follow up reviews conducted in previous years where a "limited assurance" has been given; and
  - the risk of potential fraud.

- 1.4 A detailed Plan is set out at Appendix 2 and focuses on reviews around the following themes:
- Assurance and Advisory reviews
  - Financial controls and processes
  - IT Controls
  - Schools
  - Pension Fund
  - Fraud and Corruption
  - Grants
  - Contingency
  - Management and staff development
- 1.5 The findings from each audit will be agreed with the relevant senior management and a summary of assurance reported quarterly to the Audit and Governance Committee. Alongside this the Committee will receive updates on progress in implementing previous recommendations.
- 1.6 The Audit Plan will be delivered by the in-house team (see Appendix 3) who will work in accordance with the Audit Charter (Appendix 4). The performance of the function will be monitored regularly against agreed indicators, and regularly reported alongside audit findings to the Audit and Governance Committee.

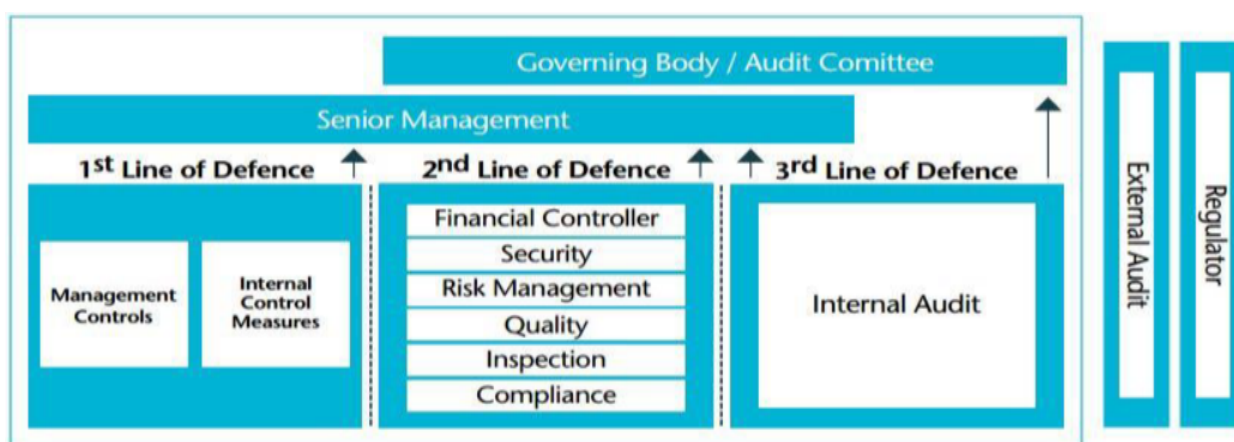
## **2 Audit Resource**

- 2.1 On 1 May 2015 Internal Audit was outsourced to Warwickshire County Council which has been providing the service since then. With effect from 1 April 2019 the Internal Audit service will return following a TUPE process to an in house provision. The team have significant experience of internal audit, local government and this Council and short biographies are attached at Appendix 3.
- 2.2 There are a number of vacant posts that are being recruited to and filling these will be crucial to the delivery of the Plan.
- 2.3 The core team will be supplemented by specialist IT auditors, this service will be provided by Worcestershire Internal Audit Shared Service (WIASS). WIASS is a partnership of 5 District Councils and Hereford and Worcester Fire and Rescue Service; this is hosted by Worcester City Council.

2.4 The budget for the team including on costs and support costs is £400,000.

### 3 Approach to the Plan

3.1 The Audit Plan is based on a thorough assessment of the risks facing the Council; its mitigation plans and awareness of prior year findings. The audit planning takes into account the "Three Lines of Defence" model to determine the extent of audit coverage and work in order to direct resources appropriately, to secure greater management buy-in to the control environment and to ensure Internal Audit is recognised as adding value. This concept was introduced in detail in a training session to the Audit & Governance Committee in October 2018 and is shown in the diagram below:



3.2 The model shows the three lines of defence that should be operating:

- 1st Line of Defence - Functions that own and manage risks
- 2nd Line of Defence - Functions that oversee risk
- 3rd Line of Defence - Functions that provide independent assurance

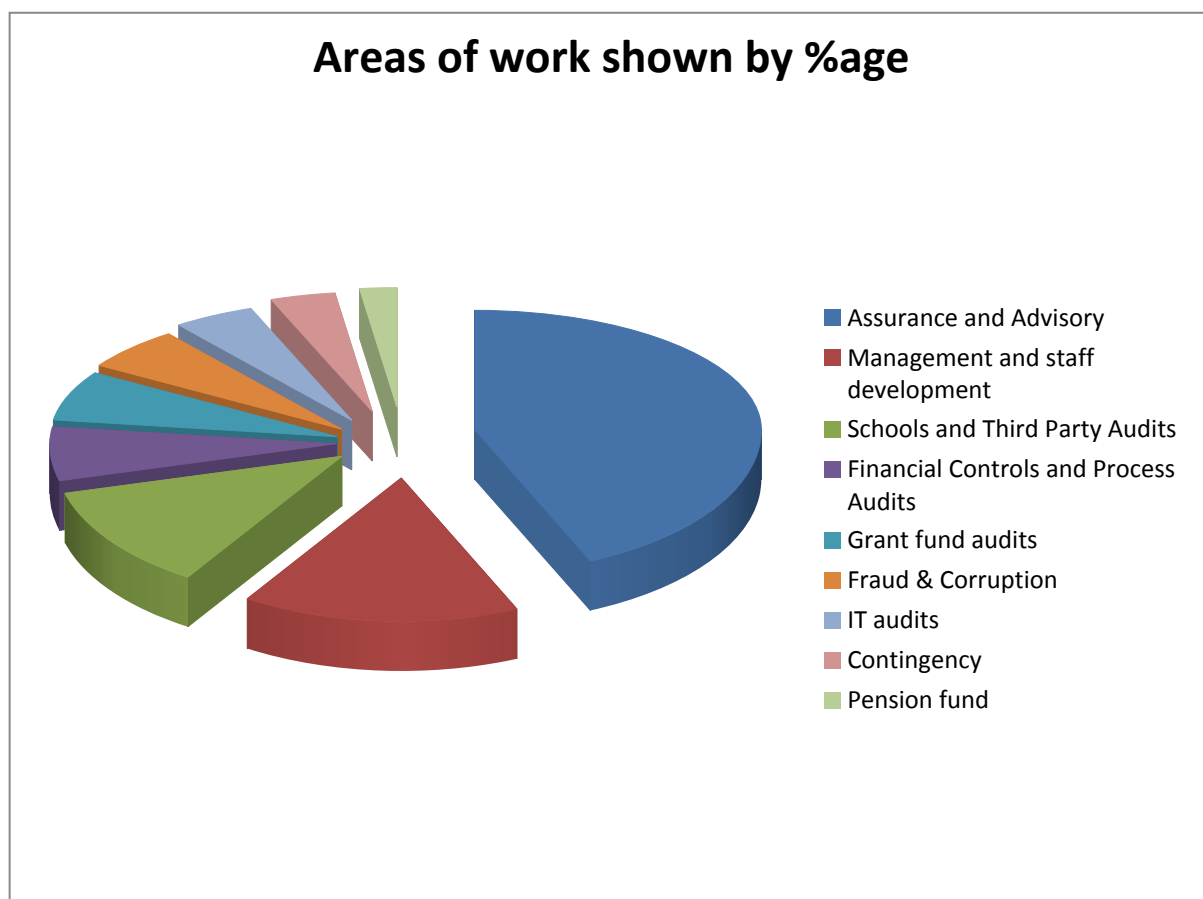
3.3 Using the model, all streams of assurance, whether internal or external, that contribute to the Council's overall risk, governance and control framework are identified. Internal Audit resources can therefore be directed at the areas of highest risk; work being based on assessment of the three lines of defence to evaluate where management should be addressing actions and where the most value can be added.

3.4 Whilst the management of risk is the responsibility of every manager, when looking at the processes of the first two lines of defence, Internal Audit's main roles are to:

- ensure that the first two lines of defence are operating effectively; and
- advise how they could be improved.

3.5 The Audit Plan, applying the three lines of defence, has been informed from a number of assessments as shown in item 1.3.

3.6 As a result of these assessments, a detailed Plan is set out at Appendix 2 and focuses on reviews around the following themes:



3.7 As is accepted best professional practice, the audit plan covers one year. The focus of work is primarily on the high risk areas, change programmes and key corporate processes. Audits of this nature are a more effective use of resources and are key to providing the appropriate assurance to the Council that its overall governance, control and risk management arrangements remain effective.

## **4 Audit Reporting**

4.1 A report, incorporating an agreed action plan, will usually be issued for every audit. An audit opinion is given on how much assurance systems give that

significant risks are addressed. There are four categories of opinion: Full, Substantial, Moderate and Limited assurance.

- 4.2 To assist managers in addressing areas for improvement, recommendations are classified as: Fundamental, Significant and Merits Attention.
- 4.3 Allowance has been made for any Special Investigations required. It is the responsibility of every manager to have systems in place to prevent and detect irregularities. However, if an irregularity is identified, or suspected, managers are required to notify Internal Audit and may need professional support to investigate the matter. All significant investigations will be undertaken by Internal Audit but more minor matters will be referred back to the service manager to progress with support from Internal Audit. The decision on which cases will be investigated will be made by the Head of Internal Audit and the Chief Financial Officer.
- 4.4 The results of audits are reported to the Audit and Governance Committee on a quarterly basis. The assurance work culminates in an annual opinion on the adequacy of the Authority's governance, control and risk management processes which feeds into the Annual Governance Statement. Annual reports and progress reports to the Committee appear on the Council's external website.
- 4.5 There will inevitably be circumstances where amendments to the Audit Plan have to be made. All amendments will be agreed with the Chief Financial Officer and reported to the Audit and Governance Committee.

## 5 Performance measures

- 5.1 The performance of the Internal Audit programme is subject to regular monitoring. The performance standards for 2019/20 are:

Performance Indicator	Target
<b>Timeliness of audit</b>	
Draft reports to be issued within a maximum of 5 working days following the completion of the audit.	95%
Auditee response to draft reports to be provided within a maximum of 10 working days.	95%
Council Final reports to be issued within a maximum of 5 working days of agreement of the management responses to the draft report.	95%
School response to draft reports to be provided within a maximum of 15 working days.	95%

Performance Indicator	Target
School audit Final reports to be issued within 20 working days of agreement of the management responses to the draft report	95%
Achievement of the Annual Internal Audit Plan by 30 April following the year end.	100%
<b>Satisfaction of the audit</b>	
Average score from client satisfaction survey issued following the completion of planned audit, special investigations and grant audits.	Average score of 4 (on a scale of 1 to 5)
<b>Quality of the audit</b>	
Percentage of Audit Team qualified and maintaining Continued Professional Development	70%
Percentage of audit recommendations accepted	90%
Percentage of audit recommendations implemented in time with agreed dates	85%
Percentage variation from the original planned audits to the final audit plan delivered	85%

## 6 Internal Audit Charter:

- 6.1 An Audit Charter is a mandatory requirement of the Public Sector Internal Audit Standards and the associated Local Government Application Note (PSIAS) and sets out the purpose, responsibilities and authority of the internal audit service within Worcestershire County Council. With effect from 1 April 2019 the Internal Audit service will return to an in house provision, having been provided by Warwickshire County Council since 1 May 2015. The Charter attached at Appendix 4 sets out what the Council can expect from the Internal Audit service.

Audit Plan authors:

Karen Seabright – Insurance Commissioning Manager

Jackie Sparkes - Engagement Manager (Audit)

Andy Bromage - Head of Internal Audit Shared Service (WIASS)

## Appendices:



Appendix 1 – Corporate Risk Register aligned to the Internal Audit work

Appendix 2 – 2019/20 Detailed Audit Plan

Appendix 3 – Internal Audit Team

Appendix 4 – Internal Audit Charter

## Corporate Risk Register aligned to the Internal Audit work

Risk	Risk Severity	Examples of internal audit coverage last 3 years	Examples of proposed internal audit role / planned assignments
A. Safeguarding Vulnerable children – rated red in response to OFSTED rating.	Red	<ul style="list-style-type: none"> <li>• Foster care/payments (Substantial)</li> <li>• LAC Placements and placement spend (Substantial)</li> <li>• Direct payments (Moderate)</li> </ul>	<ul style="list-style-type: none"> <li>• Early help effectiveness</li> <li>• Liquid Logic implementation</li> <li>• Worcester Children First</li> <li>• Placements in residential care (Out of County)</li> </ul>
B. Education for all children in Worcestershire – financial pressure on schools, changes to school organisation, SEND	Red	<ul style="list-style-type: none"> <li>• School themed, safeguarding (Substantial)</li> <li>• School themed, schools in financial difficulties (In Progress)</li> <li>• Various School visits</li> <li>• Transport including SEND (Moderate)</li> </ul>	<ul style="list-style-type: none"> <li>• School procurement- Thematic review</li> <li>• Risk based school audits</li> <li>• Governor support and training: Thematic review</li> </ul>

Risk	Risk Severity	Examples of internal audit coverage last 3 years	Examples of proposed internal audit role / planned assignments
C. Sufficient services for vulnerable adults – pressure from aging population, increasing numbers of adults with learning disabilities, lack of capacity in residential and nursing homes	Red	<ul style="list-style-type: none"> <li>• Panel process (Moderate)</li> <li>• Brokerage (Substantial)</li> <li>• Continuing health care (Moderate)</li> <li>• Social work practice (Substantial)</li> <li>• Hospital discharges (Substantial)</li> <li>• Public Health commissioning and contracting (Moderate)</li> <li>• Direct Payments (Limited)</li> <li>• Case files (Limited)</li> <li>• Learning Disability (Moderate)</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Assessments and billing</li> <li>• Direct Payments</li> <li>• Domiciliary care</li> <li>• Liquid Logic implementation</li> <li>• Section 75 agreements</li> <li>• Care Quality Commission</li> <li>• ACS Establishments</li> </ul>
D. Inadequate financial control – risk to the Council's ability to control spend	Red	<ul style="list-style-type: none"> <li>• Contract management (Moderate)</li> <li>• Transformation and savings plans (Moderate)</li> <li>• Procurement (In progress)</li> </ul>	<ul style="list-style-type: none"> <li>• Collaborative Planning</li> <li>• Transformation &amp; savings plans</li> <li>• Corporate project management</li> <li>• Contract management</li> <li>• Business Rates Pool</li> </ul>

Risk	Risk Severity	Examples of internal audit coverage last 3 years	Examples of proposed internal audit role / planned assignments
E. Insufficient staff capacity, capability and productivity – challenges associated with recruiting and retaining staff with sufficient skills and experience	Red	<ul style="list-style-type: none"> <li>Health &amp; Safety (Substantial)</li> </ul>	<ul style="list-style-type: none"> <li>HR Strategy/Policy development and compliance</li> <li>Children's Services staff retention and recruitment, advisory</li> </ul>
F. Compliance management of Council estate – risk associated with ongoing maintenance of aging estate	Red	<ul style="list-style-type: none"> <li>Place Partnership Contract Management Arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Place Partnership Contract Management Arrangements</li> </ul>
G. Business continuity response to major event – challenges associated with the ability of the council to deliver critical services in the event of a significant loss of staff or peak in demand	Red	<ul style="list-style-type: none"> <li>Emergency planning (Substantial)</li> </ul>	<ul style="list-style-type: none"> <li>Disaster recovery and business continuity</li> </ul>
H. Worcestershire Children's First – a range of risks including progress during implementation, disruption to business as usual during implementation and pressure on support services, recruitment of senior management, decision about property and uncertainty due to increased scope of service	Red	<ul style="list-style-type: none"> <li>ADM Project assurance (In progress)</li> </ul>	<ul style="list-style-type: none"> <li>WCF governance assurance</li> <li>Liquid Logic implementation</li> </ul>
I. Liquid Logic Implementation – risks to business as usual, costs of backfill arrangements, reputational damage	Red		<ul style="list-style-type: none"> <li>Liquid Logic implementation</li> </ul>

Risk	Risk Severity	Examples of internal audit coverage last 3 years	Examples of proposed internal audit role / planned assignments
J. Organisational Redesign - failure to realise full savings required for 19/20 and 20/21 due to insufficient capacity and capability to deliver within the timescales required.	Red		<ul style="list-style-type: none"> <li>• Transformation &amp; savings plans</li> <li>• Corporate project management</li> <li>• Use of consultants</li> <li>• Transformational Change Plan, advisory</li> </ul>

## 2019/20 Detailed Audit Plan

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>IT Audits</b>				
Disaster Recovery & Business Continuity	Robust business continuity plans are not in place. Key information/data is lost. Business continuity procedures have not been tested and do not work.	Assurance on recovery time objectives for key systems and services. For the IT aspect this will be in partnership with WIASS on the IT audit	3	20
Legacy Systems	Risk that personal/sensitive data is accidentally disclosed because staff or commissioned providers do not process information securely resulting in a breach of the Data Protection Act and enforcement action by the Information Commissioner Officer.	Strategy in place. Understanding of current position. Advisory and stress check.  Check and challenge including 'Health Check'. Compliance with Corporate policy. Compliance to statutory requirements.	1	10
Inventory	Inefficient and ineffective use of organisation assets leading to wasted resource.	Strategy in place. Understanding of behaviours, cultures and sub cultures presenting. Monitoring and reallocation to maximise resource usage. Advisory and stress check.	1	8

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>IT Audits</b>				
		Sample test leavers. Trace allocated equipment whereabouts. Compliance with corporate policy. Evaluation of potential loss.		
System Administration	There is a risk that, as a result of the high number of external users with non-expiring Active Directory passwords, that a password is compromised and malicious access to the Council's systems is achieved, resulting in data loss and / or system damage. This is currently necessary as, users who only access the Council's services remotely, currently have no mechanism of changing their password when it expires resulting in loss of access, the risk of which is deemed much greater than the risk posed by this threat.	Strategy in place. Deployment and adherence to corporate policy? Advisory and stress check.  IT deploying a logical approach and how applied? Sample test systems. Sample test user profiling, access and management for appropriateness.	2	10
Cloud	Potential inability to track where data is held or how the contract is meeting the needs of the organisation due to poor	Strategy in place. Central IT assurance piece of work.  Check and challenge. Sample test agreement(s) and metrics.	4	7

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>IT Audits</b>				
	monitoring or metrics/contract compliance	Contract monitoring for compliance. Deployment of risk mitigation.		
Business Continuity	<p>There is a risk that the Council will not be able to respond effectively to an incident affecting its premises because a robust business continuity plan involving Place Partnership has not been agreed, with the result that there is a significant interruption to services</p> <p>There is a risk that critical services are seriously affected by a major incident or other issue because of a failure in business continuity arrangements, which could result in the interruption of these services.</p> <p>There is a risk that as a result of not checking the business continuity plans of commissioned services that these plans will not be adequate and that there will be failure of the service</p>	<p>Corporate policy in place. Directorate assurance piece of work. Compliance and lessons learnt/applied. Advisory and stress check.</p> <p>Check and challenge. Proof of ownership and being 'fit for purpose'. Sample testing of BC Plans. Single point failure identification. Testing programme outcomes.</p>	3	10



Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>IT Audits</b>				
Network patching, malware updating, network access	<p>There is a risk that a cyber security attack (e.g. ransomware) succeeds because of inadequate safeguards with the result that access to key systems is unavailable and/or sensitive data is released into the public domain.</p> <p>There is a risk that the lack of patching of desktop applications results in exploitation of unpatched vulnerabilities causing a cyber security incident where the integrity, availability or confidentiality of the Council's data could be negatively impacted. Currently it is impossible to patch all of the applications as there are over 1000 "approved" applications in use due to prioritisation of cost over security.</p>	<p>Corporate Policy in place. Central IT assurance piece of work.</p> <p>Identify what is actually taking place? Compliance with corporate policy. Sample testing of logs, parameters. Sample testing of exceptions. Sample testing of servers and devices.</p>	4	5
Liquid Logic Project	There is a potential risk that the installation of a major forward facing system in key high	Independent assessment, challenge and evaluation during project.	1-3	12

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>IT Audits</b>				
	<p>profile areas e.g. Adult and Children Services does not deploy properly leading to inadequate service provision, public and media outrage and reputational damage.</p>	<p>To work with and assist the project professionals to ensure the project overview includes key risk elements and mitigations from an early stage in the process. Mitigation of potential risk areas. An additional resource. Advisory and stress check.</p> <p>IT aspects check and challenge:  Statutory obligations.  Project plan milestones &amp; risk assessment especially identification of single point of failure potential.  Business resilience and continuity – key personnel  Data mapping/evaluation and cleansing.  Testing programmes.  Change control processes.  System administration &amp; user profiling.  Interfaces – outward and inward  Highlight/exception reports.  Training.  GDPR adherence.  Parallel running results.</p>		
Follow Up	There is a risk that previous reviews are not followed up leaving recommendations	Independent provision of assurance by evidence that potential risk and vulnerabilities have been addressed and	1-4	8

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>IT Audits</b>				
	incomplete risks and vulnerabilities remaining.	<p>action plans completed to an acceptable standard in a timely manner.</p> <p>Previous IT audit reports and recommendations/ action plans.</p>		
<b>Financial Controls and Process Audits</b>				
Accounts payable	<p>Erroneous and/or inappropriate payments.</p> <p>Qualification of the Statement of Accounts</p>	Review of key financial system to provide assurance on effectiveness of controls and management of risks remaining with the Council. The work will assess responses to previous audit coverage and any changes to the control environment. This will provide assurance to management in the production of the accounts and fiduciary duty around payment.	3	20
Accounts receivable	<p>Unauthorised, inappropriate or untimely amendments are made to customer master file. Amounts due are not collected or are reduced inappropriately.</p> <p>Qualification of the Statement of Accounts</p>	Review of key financial system to provide assurance on effectiveness of controls and management of risks remaining with the Council. The work will assess responses to previous audit coverage and any changes to the control environment. This will provide assurance to management in the production of the accounts and fiduciary duty around income	3	20



Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Financial Controls and Process Audits</b>				
Bank reconciliation	<p>Inaccurate bank reconciliations preventing prompt recognition of fraudulent or erroneous entries.</p> <p>Qualification of the Statement of Accounts</p>	The audit will provide assurance on the adequacy of the overall arrangements in place regarding the bank reconciliation process for accounts operated by the Council.	2	10
General ledger	<p>Inadequate reconciliation of control and suspense accounts. Chart of Accounts is not properly controlled and managed. Inaccurate or inappropriate use of journal entries. Lack of appropriate reporting arrangements</p> <p>Qualification of the Statement of Accounts</p>	Review of general ledger processes and procedures to ensure they are operating efficiently and effectively.	3	15

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Financial Controls and Process Audits</b>				
Payroll & HR function	<p>Fraudulent/inaccurate payments are made. Payments are not made in a timely manner. Inaccurate or unauthorised processing of changes to standing data. Failure to process transactions promptly. Over or under payments. Ineffective reconciliation processes. Payments of deductions to third parties are not processed correctly and promptly.</p> <p>Qualification of the Statement of Accounts</p>	The scope of the audit will include the procedures in place for starters, leavers and variations to the payroll, payroll validation, warning and error reporting, recording of transactions in the main financial system and the payment of deductions to third parties. Controls operated by Liberata will not be covered.	3	20

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Adult Services</b>				
Financial Assessments	Income is not maximised. Assessments are not conducted correctly. Minimum Income Guarantee (MIG) is not applied appropriately. Charges are not properly applied with appropriate evidence to support the outcome. Not all assets/income are included in assessments.	To review financial assessments process, ensuring assessments are conducted consistently and all information is taken into account and verified.	1	20
Section 75 Agreements	Previously identified control weaknesses.	Internal Audit are required to follow up reviews conducted in 2018/19 where a "limited assurance" has been given to ensure management actions implemented and improvements made.	2	20
Direct Payments	Previously identified control weaknesses, which have been acknowledged by management, have not been addressed.	Follow up of previous limited opinion report. The audit will review the processes within Adults Services to assess compliance with policies and procedures and the arrangements for the monitoring and review of Direct Payment activity.	3	20

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Adult Services</b>				
Care Quality Commission	Safeguarding risks and reputational damage arising from inadequate rating	Assurance review focusing on preparations for CQC review including pre-checks and data quality	TBC	10
ACS Establishments	Amounts due are not collected, recorded and banked intact. Lack of separation of duties within the income collection process. Petty cash imprest account is not properly controlled and managed. Misuse or misappropriation of service user monies.	Provide assurance on the arrangements in place within Adult Social Care establishments covering the handling of cash including both County Council funds and monies held on behalf of service users.	1	25
Domiciliary Care - billing and charging. Advisory	Robustness / promptness of assessment, billing and debt recovery processes. Are charges being maximised and are clients notified appropriately of charges.	Advisory input in to project for client charges to be paid directly to WCC rather than the care homes.	1	5



Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Corporate Finance</b>				
Banking activities	The contract process could be challenged, or weaken controls	Advisory work around the bank tender	3	5
Business Rates Pool	Ineffective governance arrangements. The respective roles and responsibilities of each part are not clear or discharged effectively.	Review of governance arrangements in place and operating around the award from the pool and monitoring of the balance.	3	20
<b>Assurance and Advisory Audits – Children, Families and Communities</b>				
Worcestershire Children First	The respective roles and responsibilities of WCF and WCC are not understood or discharged correctly. Weak governance arrangements. A lack of accountability for the delivery of services. Budgets allocated are not managed effectively. Improved outcomes for children are not achieved.	Governance and processes assurance review to test the arrangements for project managing and company / client set up. A health check of progress and independent assurance the first two lines of defence are operating to mitigate risks.	2	20

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Children, Families and Communities</b>				
Placements in residential care (Out of County)	Procurement processes are ineffective and value for money is not obtained from placements. Service users' needs are not met. Placements continue after they are no longer required.	A review of the arrangements in place in respect of out of county residential care placements. The audit will concentrate on procurement of placements and ongoing reviews which ensure placements continue to be appropriate.	4	20
Procurement cards: Schools and care leavers	Inappropriate/fraudulent purchases are made. Purchases are not reviewed and/or approved. Control/use of budgets is impaired. Procurement processes are by-passed and value for money is not obtained.	To review the operation of controls, ensuring the risk of fraud, errors or misuse of cards is managed effectively.	2	20
Staff recruitment/retention	Risk that processes are in conflict with recruitment/retention objectives	Advisory input in to project for staff recruitment/retention processes	1	5

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Children, Families and Communities</b>				
Early Help and Commissioning	Ineffective governance arrangements.	Assurance on governance of improvement plans and effectiveness of key performance measures/performance management regime.	TBC	20
<b>Assurance and Advisory Audits – Commercial and Change</b>				
Information Governance	Legislative/regulatory breaches that could result in increased risk of penalties for non-compliance or reputational damage	Review of the governance of GDPR and whether compliance with its requirements has been achieved.	1	20
Use of consultants	The appointment of consultants is not properly managed and controlled. The procurement code is not adhered to. The appointment of consultants does not comply with HMRC IR35 guidance.	Review of the authority's use of consultants including management oversight of the appointment of consultants across the authority, the arrangements for procuring consultants and compliance with HMRC IR35 requirement	TBC	20

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Commercial and Change</b>				
Divisional funds	Reputational damage if funds are awarded to projects that do not meet the necessary criteria. Bids for funds are not subject to adequate assessment and authorisation. Funds are not used for their intended purpose	Review of the arrangements in place relating to the Divisional Fund including the assessment and approval of bids and the monitoring of expenditure.	4	20
Place Partnership contract management arrangements	Ongoing maintenance of the aging property estate	Review of contract management arrangements	4	25
Confidential waste destruction	Confidential or sensitive information is made available inappropriately. GDPR are contravened.	Review of arrangements for destruction of confidential waste and assurance around compliance with the regulations	1	15
Transformational Change Plan	The Council's redesign programme is insufficiently resourced or led, resulting in non-delivery of savings or qualitative change.	Advisory work to assist the directorate production of the Transformational Change Plan	TBC	5

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Economy and Infrastructure</b>				
Waste Contract	Lack of appropriate contract payment mechanisms. Regular contract performance monitoring does not take place.	Assurance on the overall arrangements for managing waste especially the contract with Mercia.	4	20
Winter Service	Budget over/under spends. Inefficient use of plant, equipment or materials. Incorrect or unauthorised payments made.	Review of the arrangements in place in relation to the winter service to cover budget management and payments to contractors/farmers.	3	20
Passenger Transport Review	Poor management information leads to flawed decision making	Advisory work around the consultation	1	5
<b>Assurance and Advisory Audits – Cross Cutting</b>				
Transformation & savings plans	Savings plans are unrealistic. Ineffective monitoring/reporting of progress against savings targets. Savings plans are not delivered. Statutory services are not delivered.	Governance of the savings programme. Process for identifying and costing existing savings proposals. Monitoring of delivery of savings plans.	TBC	20

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Cross Cutting</b>				
Corporate procurement	Poor approaches and operational practice give rise to increased costs, or lost saving opportunity.	<p>Advisory work around strengthening corporate approach to procurement and capital.</p> <p>Assessment of existing contract management arrangements to identify lessons to be learnt to feed into retendering exercise. Existence, adequacy and monitoring of performance indicators. Payments are only made in accordance with contractual provisions. Appropriate action is taken to address poor performance.</p>	TBC	5
Corporate project management	Inconsistent application of agreed methodology and regulatory framework. Project governance arrangements are not clearly defined and consistently applied .Staff do not have the appropriate skills or training	Assurance that corporate guidance is complied with across Directorates and that projects are properly managed with appropriate governance and oversight.	TBC	20

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Cross Cutting</b>				
Disaster Recovery & Business Continuity	Robust business continuity plans are not in place. Key information/data is lost. Business continuity procedures have not been tested and do not work.	Assurance on recovery time objectives for key systems and services. For the IT aspect this will be in partnership with WIASS on the IT audit	3	20
Collaborative Planning (budget monitoring tool)	Inaccurate budget data is produced leading to poor budget monitoring and increased risk of overspend affecting the Council's financial standing.	Assurance to management on the progress of improvements in budget management through the use of Collaborative Planning, preparation of budgets and forecasts, training and support to managers, interface between Collaborative planning, E5 and other systems.	2	25

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Cross Cutting</b>				
Implementation of Liquid Logic, replacing Frameworki.	Errors and/or omissions in data exported. Links with other systems do not operate effectively. System users are not sufficiently trained in the use of the system. Insufficient testing before system goes live. No case management system available impacting business as usual. Cost of backfilling arrangements resulting in budget overspend. Reputational damage is project is not implemented successfully.	With the project team, the first line of defence should be working, therefore the audit will aim to provide assurance that there are robust plans in place covering the implementation of the new social care case management system including the arrangements for reporting to management and procedures for ensuring lessons learned from previous system implementations are considered. For the IT aspect this will be in partnership with WIASS on the IT audit	1-3	30
Agency staffing	Contravention of HMRC IR35 requirements. Agency staff used where it is inappropriate to do so. Agency arrangements do not provide value for money.	Review of the authority's use of agency staff including management oversight of the use of agency staff across the authority, the arrangements for procuring agency staff, use of the Matrix contract and compliance with HMRC IR35 requirement.	2	25



Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Assurance and Advisory Audits – Cross Cutting</b>				
Travel and Subsistence: Officers & Councillors	Inappropriate/fraudulent claims are made. Journeys are made which are not justified and agreed in advance. Claims are not approved/reviewed by management. Incorrect mileage and/or subsistence rates are paid.	A review of a sample number of travel and subsistence claims to confirm compliance with the policy to include the accuracy of information, reasonableness of mileage claimed and supporting receipts.	2	25
Risk Management	The Authority does not comply with risk management standards and best practice. Risks are not appropriately managed.	Adequacy of risk management policy and procedures including role and responsibilities and training and support available to managers. The identification, assessment and monitoring of risk, its reduction and controls. The governance and oversight of risk management and the linkage to operational issues and the relevant Annual Governance Statement.	TBC	15
Worcestershire LEP - Assurance Framework	Inadequate governance and controls results in funding clawback and reputational damage	The WLEP is actively engaged in responding to the changes in "Strengthening Local Enterprise Partnerships" issued in July 2018 and will need to continue to adapt the framework as decisions on the application of the revised policy are agreed. Assurance work on the resulting changes in structure and governance	TBC	10
HR strategy/policy development and compliance	Inconsistency of practice across directorates, e.g. managing attendance, conduct and performance, recruitment	Compliance with HR policies	3	25

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Schools and Third Party Audits</b>				
School Procurement :Thematic review	The award of contracts is not approved in accordance with the School's requirements. Value for money is not obtained from the award of contracts. Schools are unable to defend a challenge over a procurement process. EU and other statutory requirements are not adhered to leading to financial penalties being imposed against the Council/school. Goods and/or services delivered do not meet the School's requirements. Extensions and/or variations are agreed inappropriately.	Sample of schools to be visited to review effectiveness of procurement arrangements. Common issues and recommendations to be communicated to all schools.	TBC	30

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Schools and Third Party Audits</b>				
Governor support and training: Thematic review	Governing Bodies have insufficient finance training. Budgets are not managed effectively. Insufficient challenge over financial decisions. A lack of accountability for budget related decisions.	A sample of schools to be visited to review arrangements designed to support governing bodies in providing effective financial management. Common issues and recommendations to be communicated to all schools.	TBC	30

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Schools and Third Party Audits</b>				
Schools limited assurance revisits	Previously identified control weaknesses, which have been acknowledged by management, have not been addressed.	Internal Audit are required to follow up reviews conducted in 2018/19 where a "limited assurance" has been given to ensure management actions implemented and improvements made.	TBC	16
Individual school audits planned and inspection	Delegated budgets are not managed effectively. Inappropriate/ fraudulent use of resources. Value for money is not obtained from the award of contracts. Income due is not collected in full. School private fund accounts not subject to appropriate controls and independent audit review. School assets are not recorded, managed & monitored effectively.	A sample of schools to be visited as individual reviews of the effectiveness of the governance and financial management arrangements. The reviews will provide assurance to both Governing Bodies and the Council including compliance with the Schools' Financial Value Statement (SFVS).	1-4	90
<b>Worcestershire Pension Fund</b>				
Pension financial controls	<p>Poor value for money and / or fraudulent activity.</p> <p>Qualification of the Statement of Accounts.</p>	To carry out testing of the financial controls and processes surrounding pension records and liabilities.	3	20

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Worcestershire Pension Fund</b>				
Pensions Investment	Ineffective governance arrangements. Partner Funds cannot place reliance on the Company's systems and controls. An approved annual budget is not in place or has been exceeded therefore requiring partners to add additional contributions. Investments do not adhere to responsible investment principles.	The audit will aim to provide assurance on the management of the risks associated with the investments of the Worcestershire Pension Fund and the transfer of funds to LGPS Central Ltd.	TBC	15
<b>Fraud &amp; Corruption</b>				
National Fraud Initiative	Lack of focus on data giving rise to fraudulent activity not being identified.	To co-ordinate the collection of data and ensure / test that managers are following up matches accordingly.	1-4	8
Counter fraud including analytics	Loss of income	To carry out a range of analytical reviews and explore further work as appropriate. For example income analysis leading to cashing up exercises.	1-4	10
Contingency for special investigations	Risk of loss of funds reported.	To carry out ad hoc investigations as appropriate.	1-4	60

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Advisory</b>				
Contingency for management support	Assurance sought from senior management arising from events that occur in year – based on internal or external events not known at the time of planning the audits.	To carry out ad hoc investigations as appropriate.	1-4	60
<b>Grant Fund Audits</b>				
Kidderminster Trust	Internal Audit certification is mandatory	Grant certification	2	2
LTC National Productivity Investment Fund	Internal Audit certification is mandatory	Grant certification	2	3
Integrated Transport Block	Internal Audit certification is mandatory	Grant certification	2	3
Highway Maintenance block	Internal Audit certification is mandatory	Grant certification	2	3
Highway Maintenance block & Incentive	Internal Audit certification is mandatory	Grant certification	2	3
LTC - Pot hole funds	Internal Audit certification is mandatory	Grant certification	2	3
LTC - Flood Resilience	Internal Audit certification is mandatory	Grant certification	2	3

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Grant fund audits</b>				
Integrated Transport Block (Highways Maintenance)	Internal Audit certification is mandatory	Grant certification	2	3
Highways England Growth & Housing Fund	Internal Audit certification is mandatory	Grant certification	2	3
Grant A4440 Southern link	Internal Audit certification is mandatory	Grant certification	2	3
Bus Subsidy Ring Fenced grant	Internal Audit certification is mandatory	Grant certification	2	5
Rural Growth Fund	Internal Audit certification is mandatory	Grant certification	2	5
Growth Hub	Internal Audit certification is mandatory	Grant certification	1	5
Troubled Families	Internal Audit certification is mandatory	Grant certification	1 -4	25
Youth Justice YOT Grant	Internal Audit certification is mandatory	Grant certification	1	8
European Social Fund (ChS)	Internal Audit certification is mandatory	Grant certification	1	5

Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Indicative Timing (Q1-4)	Days
<b>Contingency, Management and Staff Development</b>				
Estimate of time required to finalise 2018/19 planned work	Internal Audit Plan incomplete and risks not resolved.	Complete audit work as required.	1-2	50
Management and meetings	Insufficient supervision reduces the effectiveness of the Internal Audit function	To attend meetings required by the Council; hold regular 1:1 and team meetings; and ensure all performance management requirements are met, including appraisals.	1-4	125
Corporate Risk Management Group	Inadequate risk approach to register or Annual Governance Statement	To contribute to the assessment of risk, the Council's risk approach and the Annual Governance Statement.	1-4	5
Staff development	Insufficient capability reduces the effectiveness of the Internal Audit Function	To draw up and manage an effective workforce strategy.	1-4	TBC depending on resource
New system	Insufficient training and data reduces the effectiveness of the Internal Audit function	To implement and maintain the new audit system.	1-2	40
Administration	Insufficient data and information reduces the effectiveness of the Internal Audit function	To maximise and maintain the use of the new system.	1-4	TBC depending on resource
<b>Total</b>				<b>1406</b>



# Internal Audit Team

Head of Internal Audit: <b>Vacant</b>	This post was not part of the TUPE process and as such a new post is being created at the time of presenting this Plan. It is hoped the role will be filled early in the new financial year.
Engagement Manager: <b>Jackie Sparkes</b>	Jackie has worked in Local Government for 43 years and in Internal Audit for the past 34 years. She has been involved in delivering audit services to a number of public sector organisations during her career including County Councils, Police Forces, Police & Crime Commissioners, Fire Brigade and Probation. Jackie is CIMA qualified.
Principal Auditor: <b>Chris Portmann</b>	Chris has worked in local government audit for the past 17 years and has been involved in delivering audit services to a number of public sector organisations during his career including county councils, district councils, police forces, the fire authority and magistrates courts. He also has extensive experience of leading investigations into suspected frauds and other irregularities and fulfilling the role of investigating officer. Prior to working in audit, Chris was employed as a College Finance Manager and has a wide experience of education services and in particular schools. Chris is AAT and AATQB qualified.
Principal Auditor: <b>Lisa Smith</b>	Lisa has worked in local government for 31 years and has worked in Internal Audit for most of that time. During her time in audit Lisa has been involved in delivering audit services to a number of public sector bodies including county councils, police forces and police and crime commissioners. Lisa is AAT qualified.
Auditor: <b>Dominic Roberts</b>	Dominic has worked in local government internal audit for the past 14 years and has been involved in delivering audit services for Worcestershire County Council and Warwickshire County Council. In addition to this has also carried out audits for external clients. Dominic is AAT qualified and has attended the IIA Risk based auditing course.
Auditor posts x 3: <b>Vacant</b>	A number of staff previously employed by Warwickshire have secured other employment. As such the Council is actively recruiting to these posts.

**Internal Audit Charter 2019/20**



## **Audit Charter**

### **Background**

The Council has a statutory responsibility to have in place arrangements for managing risks; The Accounts and Audit Regulations 2015 require the Council to have a sound system of internal control which:

- facilitates the effective exercise of their functions and the achievement of its aims and objectives
- ensures that the financial and operational management of the Authority is effective; and
- includes effective arrangements for the management of risk.

Furthermore, the CIPFA/SOLACE governance framework “Delivering Good Governance in Local Government” outlines the need for risk management to be embedded into the culture of the organisation, with members and officers recognising that risk management is an integral part of their jobs.

The requirement for an internal audit function is also contained in the Regulations which require the Authority to:

“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

### **Definitions**

The role of the “Board” outlined in the PSIAS is fulfilled by the Audit and Governance Committee. The role of senior management is fulfilled by the Chief Financial Officer.

The role of the Chief Audit Executive (Head of Internal Audit) will be fulfilled by the Chief Internal Auditor when the role is filled.

## **Purpose**

The Council has to comply with the PSIAS which define internal audit as:

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The IIA standards, on which PSIAS are based, define the role of an effective internal audit function as:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

Achievement of this is supported by a range of standards and guidance including: the Core Principles, the Definition of Internal Audit and a Code of Ethics.

For an audit function to be considered effective all of the following Core Principles must be present and operating effectively:

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive and future-focused.
10. Promotes organisational improvement.

The PSIAS includes a mandatory Code of Ethics (based on international IIA standards) covering integrity, objectivity, confidentiality and competency. All internal auditors in the public sector must also have regard to the Committee on Standards of Public Life’s Seven Principles of Public Life – the Nolan principles.

The Service also assists the designated Chief Financial Officer in discharging his delegated responsibilities under Section 151 of the Local Government Act 1972 which requires that authorities:

“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

### **Scope and Responsibility**

Internal Audit is responsible for providing assurance in accordance with all relevant professional standards and guidance across the Council’s entire control environment and across all activities, including:

- services provided on behalf of other organisations by the Authority and
- services provided by other organisations on behalf of the Authority.

In addition to core assurance work Internal Audit also provides the following work:

#### **a) Consultancy / Advisory work**

This work is designed to add value and offer insights that should improve the effectiveness of risk management, control and governance processes at the request of the organisation, subject to the availability of skills and resources.

Due to its detailed knowledge of systems and processes Internal Audit is well placed to provide advice and support to managers on the implications of changes to policy or processes. As such Internal Audit must be informed and consulted about plans for major or complex changes to systems. Internal Audit will advise / comment on proposed changes and the controls to be incorporated in new and revised systems when invited to do so or where agreed in the annual plan. The final decision on whether to accept the audit advice rests with the relevant manager(s) but where appropriate the issue will be escalated to more senior management. The provision of such advice does not prejudice Internal Audit’s right to evaluate the established systems and controls at a later date.

#### **b) Fraud**

All managers are responsible for the prevention and detection of fraud, corruption and other irregularities. Internal Audit, however, assists with these responsibilities. Internal Auditors when conducting audit assignments are alert to opportunities, such as control weaknesses that could allow fraud. If Internal Audit discovers evidence of a fraud or other irregularity the relevant line manager will be informed.

Managers should immediately inform Internal Audit if a fraud or other irregularity is suspected, Internal Audit will then inform the Chief Financial Officer of significant allegations. Other officers will in turn be informed as appropriate and consistent with the need to ensure confidentiality is maintained so as not to prejudice any subsequent investigation.

Managers should also ensure that:

- any supporting documentation or other evidence is secured; and
- confidentiality is maintained so as not to prejudice any subsequent investigation.

Usually straight forward matters will be investigated by the service concerned with support provided by Internal Audit who may investigate the more complicated or large cases of suspected fraud and other irregularities. In all cases it is the responsibility of the relevant manager(s) to determine what action to take as a result of the investigation.

Internal Audit is responsible for reviewing the Authority's response to fraudulent activity in order to ensure that appropriate action has been taken. Once an investigation is concluded, Internal Audit will undertake a review to determine whether controls should be strengthened.

Internal Audit is responsible, following consultation with relevant managers, for reporting frauds and subsequent liaison with the Police and other investigative agencies.

### **Value for money**

Internal Audit will offer advice and insight concerning instances of over control, or inefficiency, but will not specifically examine or evaluate the extent that value for money is achieved as part of routine reviews.

Where specifically agreed in the audit plan Internal Audit will, subject to availability of resources, also:

- undertake or participate in specific value for money, or similar, reviews / projects;
- facilitate the introduction of best practice across the Authority.

The scope of a value for money / service review will not normally overlap with the scope of an audit. Internal Audit will take account of the timing and scope of such reviews when planning its work.

Where a review team is actively looking at options that have a material impact on risks and controls Internal Audit must be informed at an early stage. Where requested, and subject to the agreement of the relevant manager, Internal Audit will assist reviewers by supplying information and knowledge gained during audits where this is relevant to the scope of the review.

## **Other**

Internal Audit may, at the request of senior managers or the Council or any of its committees, carry out investigations into issues where the Authority's strategic, corporate or financial interests are at stake.

Wherever possible the member of Internal Audit responsible for providing advice on a particular topic will not undertake assurance work on that topic for at least 12 months. Where this is unavoidable management supervision will ensure that no conflict of interest arises and objectivity is maintained.

Any significant unplanned non-assurance work that would impact delivery of the core assurance work will be discussed with the Chief Financial Officer and reported to the Audit and Governance Committee.

## **Independence**

The Service is managed by the Head of Internal Audit who is professionally qualified as required by PSIAS. Although the Head of Internal Audit's direct reporting line on audit matters is to the Chief Financial Officer, he/she also reports functionally to the Audit and Governance Committee which has responsibility for overseeing audit arrangements.

Internal Audit does not have any executive responsibilities and is independent of the activities that it audits. This enables it to provide impartial and unbiased professional opinions and recommendations.

Internal Audit is free to plan, undertake and report on its work, as it deems appropriate, in consultation with relevant managers and the Audit and Governance Committee.

As the first line of defence, line managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate control and risk management arrangements exist without depending on internal audit activity.

Internal Audit provides advice and assistance to managers and provides assurance that their control responsibilities are being properly fulfilled. Line managers are

accountable for accepting Internal Audit's advice and implementing its recommendations.

### **Audit and Governance Committee**

The Council is responsible for maintaining an Audit Committee which complies with all relevant guidance. The Committee's responsibilities include reviewing and commenting upon:

- formally approving the audit charter;
- formally approving (but not directing) the overall internal audit programme of audits to ensure that it meets the Council's overall strategic direction (paying particular attention to whether there is sufficient and appropriate coverage);
- reviewing and commenting on summaries of work done, key findings, issues of concern and action in hand as a result of audit work; and
- receiving and reviewing the annual report from Internal Audit in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage.

### **Right of access**

To undertake its work Internal Audit has unrestricted access to all the Authority's personnel, premises, documents, records, information and assets including those of partner organisations. Internal Audit has authority to access all relevant computer data as part of their work, including that registered under the Data Protection Act.

Internal Audit is authorised to obtain the information and explanations they consider necessary from any employees, partners or agents of the Authority to fulfil their objectives and responsibilities. Managers must ensure that Internal Audit access is considered when preparing partnership agreements or contracts for the purchase or supply of goods and services.

Internal Audit has the right of access to any data required for their work that is owned by the Authority, but is processed or held elsewhere by third parties.

The Head of Internal Audit has the right of direct access to the Leader, Chief Executive, Chief Financial Officer, Chair of the Audit and Governance Committee, Directors and Heads of Service.

## **Standards**

Internal Audit operates in accordance with the best practice standards and guidance in the PSIAS.

Individual auditors are required to comply with the standards, all relevant ethical and technical standards issued by their professional bodies and with all relevant codes of conduct issued by the Council.

Internal auditors are expected to:

- exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
- maintain and keep up to date their professional knowledge and skills and to participate in any continuing professional development scheme (CPD) operated by their professional body;
- participate in the Council's performance review scheme;
- comply with the Council's rules about declaring interests; and
- obtain and record sufficient audit evidence to support their findings and recommendations.

Internal Audit will safeguard the information obtained in carrying out its duties. Information obtained will not be used for personal gain or disclosed unless there is a legal or professional requirement to do so (for example under the Freedom of Information Act).

## **Planning**

Internal audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.

Internal Audit produces an annual plan. This is developed in consultation with senior managers and takes account of the Authority's aims, strategies, key objectives, associated risks and risk management processes. The Audit and Governance Committee agrees each year's plan. The plan includes an element of contingency to allow Internal Audit to be responsive to changing conditions and requests for assistance from managers. It is the responsibility of the Chief Financial Officer to ensure that the budget allocated to Internal Audit is sufficient to ensure that the plan can be delivered.



Internal Audit are authorised, in consultation with the Chief Financial Officer, to amend the plan during the year as necessary to reflect changes to systems or processes or in the risks facing the Authority. Any significant changes will be reported to the Audit and Governance Committee. All managers are expected to notify Internal Audit of any issues that may potentially require a change in the plan as soon as they become aware of them.

Terms of reference are prepared for each routine assignment and usually discussed with relevant line managers before the work is started.

Reasonable notice will usually be given to the relevant manager of the start of an audit and Internal Audit will minimise any disruption to the smooth running of the unit under review. Internal Audit reserves the right for unannounced visits where Audit considers it necessary.

## **Reporting**

All findings are reported to appropriate managers. Significant issues are reported in writing. The reports include an opinion on the adequacy of controls in the area reviewed, make recommendations for improvement and specify the officer responsible for implementation. Opinions on individual assignments feed into the overall opinion given in the annual report. Recommendations are prioritised.

Reports will usually be agreed with the relevant Head of Service and the final agreed report will be copied to the relevant Director. Reports identifying significant financial issues will also be copied to the Chief Financial Officer. Audits resulting in a limited opinion will also be reported to the Strategic Leadership Team.

The Council is responsible for publishing agreed reports as they consider appropriate.

Internal Audit is responsible, based upon information provided by the Council, for reporting to the Audit and Governance Committee on the extent of implementation of agreed internal audit recommendations.

Internal Audit submits regular reports to the Audit and Governance Committee summarising the results of audits and progress in implementing audit recommendations. An annual report will be provided giving an opinion on the Authority's system of internal control which feeds into the annual review of the effectiveness of the Authority's system of internal control and the Annual Governance Statement.

## **Co-operation**

Internal Audit co-ordinates internal audit plans and activities with other internal and external providers of assurance, to ensure the most efficient use of the total resources devoted to audit. As recognised in professional standards (ISA 610) external audit and internal audit have different objectives and priorities. Internal Audit are authorised to share information with external auditors and the Cabinet Office (for the purposes of the National Fraud Initiative).

Internal Audit will liaise as appropriate with those involved in risk management and other policy and assurance providers, internal and external, sharing information and co-ordinating work as far as is practicable, in line with appropriate professional standards and other confidentiality considerations.

Internal Audit will work in partnership with other parts of the organisation on such matters as corporate governance, data protection, contracting and risk management.

It is the responsibility of every manager to be open, frank and honest at all times about any risks, concerns or problems that may exist and should provide more detailed information and evidence to Internal Audit within a reasonable time scale.

Managers setting up a shared service / partnership or outsourcing a service must consider the requirement for assurances in relation to what they are doing, including the option of Internal Audit and must include appropriate assurance obligations and internal audit access rights in any agreement.

## **Quality of service**

Internal Audit provides a quality assurance programme to ensure that work complies with professional standards and achieves its objectives.

Internal Audit takes the following steps to provide a quality service:

- adopts a flexible risk driven approach;
- works in partnership with managers and staff to develop and maintain adequate and reliable systems of internal control;
- continually seeks to improve the efficiency of its services in consultation with managers from across the Authority;
- regularly reviews its procedures to ensure that they remain appropriate.

The quality assurance programme includes:

- suitable guidance, support and review of all internal audit work;
- seeking feedback from line managers on the quality of internal audit work;
- periodic internal quality audits to monitor services provided by all internal auditors; and
- regular internal and external assessments.

Any complaints about Internal Auditors or the service provided will be investigated and responded to promptly.

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **15 MARCH 2019**

## **THIRD UPDATE ON FINANCE IMPROVEMENT PROGRAMME (FIP)**

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### **Recommendations**

1. **The Chief Finance Officer recommends that the Audit and Governance Committee note the report and that a further update is brought to the September Committee.**

### **Background**

2. At the last three meetings (July, September and December 2018) the Committee discussed the external audit (Grant Thornton) Annual Reports and improvements being made in Finance. Appendix 1 is a reminder of the Programme.
3. This report updates the Committee on progress on this improvement programme.

### **Management action to date**

4. To ensure that the Council has a fit for purpose finance function to support the organisation in the coming years an Improvement Programme is in place with six individual projects and two cross cutting projects. Progress on each area since the last Audit and Governance Committee is set out below:

- i. **Control environment –**

- We have reviewed old purchase order accruals and have identified £0.7 million credit that has been corrected back to service cost centres. These are mostly aged goods receipting accruals, which need to be cancelled as we have either paid an invoice separately or that the goods have never been received and probably never will be. This helped to bring this year's overspend forecast down.
- We are issuing new guidance for purchase orders to ensure this issue is not replicated in future years.

- ii. **Budget Structures and roles and responsibilities:**

- The cost centre *hierarchy review project* has been completed. We have had discussions and meetings with directorates to discuss progress and expect changes to be made for the new financial year. This will see a reduction of 530 (39%) cost centres.

- iii. **Financial Transactions:**

- Work in this area has slowed as the focus of resource has moved to the implementation of the Liquid Logic care management system. However, an

Accounts Payable and Receivable Manager has been appointed for the next 12 months from internal resources to lead the business as usual development.

- Resource has been targeted to chase and collect debt outstanding.

iv. **Staffing structures:**

- A draft competency framework is being discussed with staff and a workforce strategy is in development.

v. **Systems:**

- We have completed a handover of reconciliations to the Corporate Accountancy function to run now as business as usual having corrected issues raised at previous audits.

vi. **Partners and customers:**

- We are in discussion still with Liberata regarding the current contract and key performance measures. We will be reporting progress to the Corporate and Commissioning Committee in May.

5. Underpinning these are two cross cutting projects:

i. **Communications:**

- As part of the ongoing development of the webpage, we have included a request for feedback on the finance service. On our [home page](#) there is a link to the [survey](#) which we are asking managers to complete if they have any comments, compliments or complaints about the finance service. We will be evaluating this at the end of March.

ii. **Training:**

- Training procedure manuals are being uploaded to our intranet page, for example see [Accounts Receivable](#) on our webpage, as well as others on the following link - [finance documents and guidance](#).
- We have held 4 training workshops on how to use the Council's budget monitoring tool 'collaborative planning, involving 52 budget and spend managers. A further four sessions have been scheduled during March with a further 60 managers.
- Five lunch and learn sessions have been held already this year for the Finance team, looking at a wide range of issues from using pivot tables to expected behaviours.

6. The Programme is being monitored by a Strategic and Operational Programme Board in accordance with the Councils Project Management processes. The latest highlight report notes no red issues.

## **Legal, Financial and HR Implications**

7. 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. In 2019 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.

8. 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](mailto:mhudson@worcestershire.gov.uk)

## **Supporting Information**

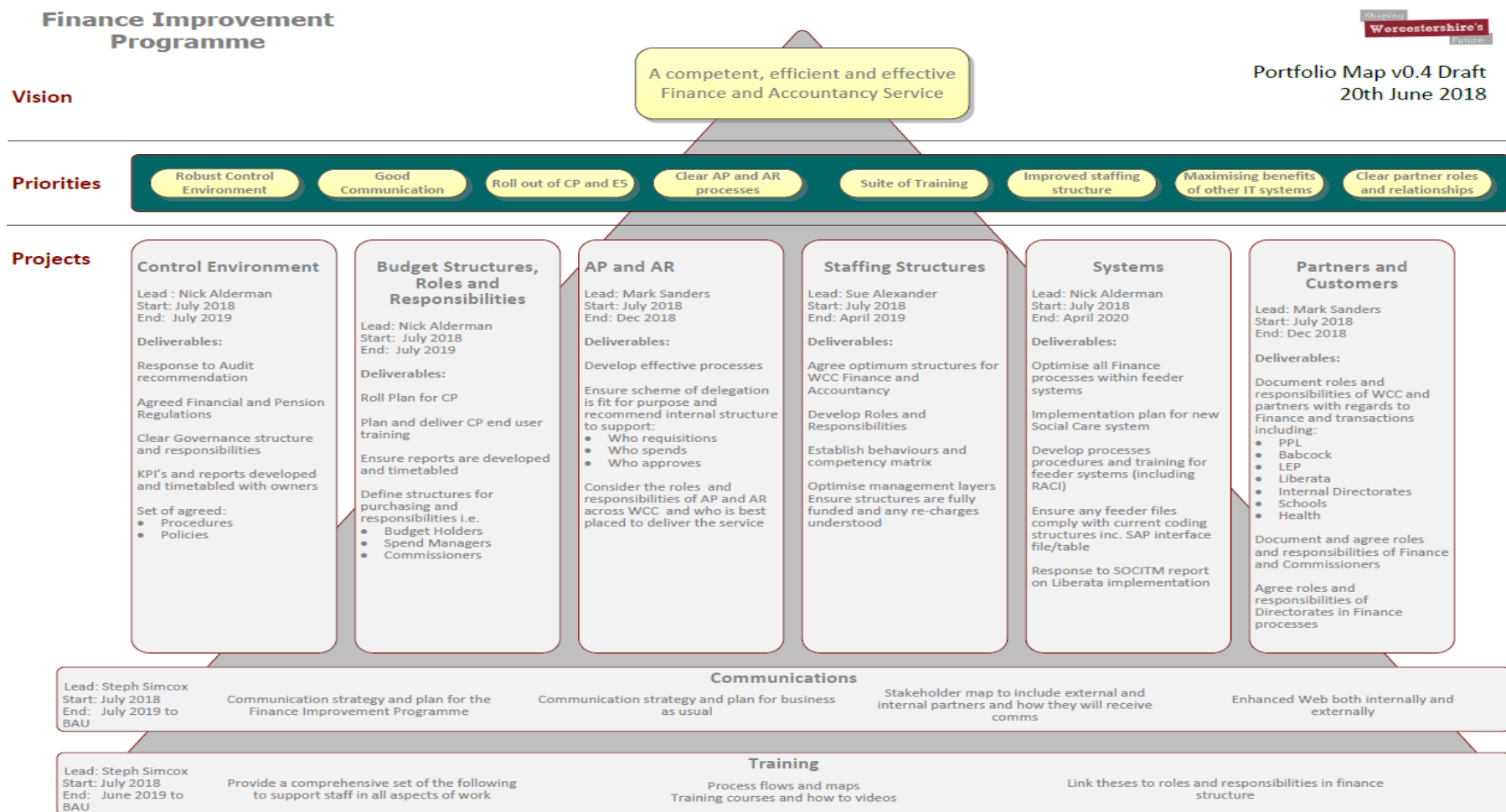
- Appendix 1 – Finance Improvement Programme Overview diagram.

## **Background Papers**

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

The agenda papers and Minutes of the Committee meetings in July, September and December 2018.

## Finance Improvement Programme Overview diagram.





## **AUDIT AND GOVERNANCE COMMITTEE**

### **15 MARCH 2019**

## **COMMISSIONING EXTERNAL AUDIT CONCLUSION PROGRESS REPORT**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the progress in the report is noted.**

### **Background**

2. At the meeting of the Committee on 14 December 108, members asked for a further update in relation to progress made regarding the risks and findings previously raised at the July meeting by our external auditors in relation to commissioning (Minute no. 492 refers).
3. The external audit annual opinion report raised the following conclusion in relation to commissioning:

*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.*

4. This report informs the Committee of progress and further action being taken in relation to this.

### **Progress update**

5. All contracts have a lead officer who have been monitoring the contract and working with the Procurement team to assess the strategy for each. A project plan also exists, and is available on the website for further reviews.
6. One major contract has been insourced since the external audit opinion – DCX IT, and reports on progress and lessons learnt have been reported to members in other forums.
7. The Liberata contract is being reviewed and a progress report is scheduled for the Corporate and Commissioning Board in May 2019, and this will be reviewed by external audit as part of their assessment of the 2018/19 Value for Money assessment. A copy

will be shared with the Committee when the agenda is published. This will include a number of changes to the contract, operations and relationships.

8. A Commercial and Commissioning Board is in place and has met approximately every two weeks since August 2018. The minutes of these have been shared with external audit for their assessment in relation to the 2018/19 opinion. This Board has maintained the governance over decision making, introducing standardised assessment of contract extensions and procedures to market. External audit are again reviewing this process and will provide commentary at the July Committee.

9. A review has been completed of tail end spend, with improved reporting to directorates in relation to spend by supplier and source. This has been enabled since January monthly check and challenge by Departmental Leadership Teams. The Procurement team are also just finalising the first tranche of suppliers to move to longer payment terms (30 days) and seeking to secure savings through negotiated discounts in agreeing shorter time scales.

10. A Commercial and Procurement Strategy is expected to be taken through members in Summer 2019. Whilst this will be after the audit opinion for 2018/19 we will be working with external audit to discuss early drafts to seek their comments and feedback.

11. Regular meetings are thus being held with external audit in advance of the audit VFM opinion, and this is reflected in the Audit Plan presented at the same Committee considering this report.

## **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

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## **Supporting Information**

- Project plan of procurement activity – available electronically only.



Copy of Commercial  
Milestone Plan v2.2.

## **Background Papers**

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

External Audit Annual Findings Report 2017/18 – Item 6 Audit and Governance  
Committee 26 July 2018

## **AUDIT AND GOVERNANCE COMMITTEE**

### **15 MARCH 2019**

## **WORK PROGRAMME**

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### **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**

#### **29 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  
Corporate Risk Report

#### **20 September 2019**

Internal Audit Progress Report 2019/20  
Counter Fraud Report 2018/19  
External Auditor – Annual Audit Letter

#### **13 December 2019**

Internal Audit Progress Report 2019/20  
Corporate Risk Report  
External Audit Plan 2019/20

#### **March 2020**

Internal Audit Progress Report 2019/20  
Internal Audit Plan 2020/21  
External Auditor Plan – Informing the Audit Risk Assessment

### **Contact Points**

#### County Council Contact Points

County Council: 01905 763763  
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## **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