worcestershire
countycouncil

Audit and Governance Committee
Friday, 26 June 2015, County Hall, Worcester - 10.00 am

	Minutes
Present:	Mr W P Gretton (Chairman), Mrs S Askin, Mr S J M Clee, Mr N Desmond and Mr P M McDonald.
Also attended:	Mrs E B Tucker was also in attendance.
Available papers	The Members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meeting held on 20 March 2015. A copy of document A will be attached to the signed Minutes.
343 Named Substitutes (Agenda item 1)	Mr P M McDonald for Mr L C R Mallett.
344 Apologies/ Declarations of Interest (Agenda item 2)	Apologies were received from Mr L C R Mallett, Mr R J Sutton, and Mr P A Tuthill.
345 Public Participation (Agenda item 3)	None.
346 Confirmation of Minutes (Agenda item 4)	**RESOLVED that the Minutes of the meeting held on 20 March 2015 be confirmed as a correct record and signed by the Chairman.**
347 Annual Statutory Financial Statements for the year ending 31 March 2015 (Agenda item 5)	The Committee considered the Final Accounts Pack including the Statement of Accounts for the financial year ending 31 March 2015. The report set out the key dates for the 2014/15 closedown process, the Statement of Accounts for the year ending 31 March 2015, matters of substance and disclosures/changes.

The Chief Financial Officer introduced the report and commented that:

- The process of preparing the accounts had been more challenging in a positive way than previous years. There were a number of areas where the accounts had been enhanced and it had been a challenge to present them to this Committee to the highest standards by the end of June. He thanked his Accountancy team and Grant Thornton for their efforts in producing the Accounts
- The external auditor had indicated that they would issue an unqualified opinion on the Accounts. There was a small amount of work that had not been completed but this should not have any material impact on the final accounts. He would consult with the Chairman and Vice-Chairman of the Committee to finalise any resulting adjustments. Subject to the approval of the Committee, the Accounts would be formally published
- The Council had broken even compared to the cash limited budgets. There had been a decrease in the amount of useable reserves which was the third year that this had happened
- The General Fund Balance remained at £13m. A number of adjustments had been made most notably capital adjustments relating to voluntary aided schools. The County Council derecognised £42.4 million of assets due to school buildings being transferred to newly established academy schools in 2014/15. (£97.8 million of assets were derecognised by restating the 2013/14 and 2012/13 consolidated Balance sheets). This related to minor capital expenditure on a range of voluntary aided and voluntary controlled schools
- There was an error in the report as the external borrowing figure for 2013/14 should read £262.3m however this did not impact on the figures for the ratio of external borrowing to tax revenue. The Council had increased the money made from investments by not going to external markets however this situation could change in the future
- Provisions of £3.0 million (£2.0 million in 2013/14) have been included in the accounts to allow for staff redundancy costs resulting from restructuring of £1.9 million, contracted commitments on TUPE staff of £0.5 million and various smaller provisions totalling £0.6 million
- In relation to the Pension Fund accounts, net assets had performed well, increasing by 11% with the performance in the american and equity markets

being particularly successful. However this success could not be sustained in the future therefore the challenge facing the Council was how to respond and therefore investment in infrastructure and property was being considered

- The liabilities in the Pension Fund had grown significantly. Liabilities were tied to the success or otherwise of the gilt rate. As the gilt rate fell, liabilities rose. Quantative easing had been introduced in Europe and the government were purchasing gilt bonds, the effect of which would not be known for a couple of years. An explanation of liabilities would be included in next year's accounts
- The Pension Fund accounts were a good performing set of accounts and he thanked Mark Sanders and Mark Forrester and their teams for their work in preparing them.

John Gregory and Helen Lillington from Grant Thornton introduced the Audit Findings Report of the Council and the Pensions Fund and made the following points:

- The balance sheet values had reduced largely as a result of the technical accounting changes required in the sector, particularly the impact of the removal of academy schools. This was a picture that was being replicated across the public sector, and was not a significant area of concern
- Two objections had been made to the 2014 accounts. One objection related to the waste contract. A provisional view had been issued on this objection and the views of the objector and the Council had been sought. Their responses had been forwarded to the Public Sector Audit Appointments (formerly the Audit Commission) who would make the formal decision which was expected by the end of next week. The process had taken longer compared to Herefordshire Council because of the volume of objections received in Worcestershire. The other objection related to commissioning and contracts and had not been concluded yet. However it was anticipated that these objections would be resolved within the statutory period and the outcome would be reported to the next meeting of this Committee
- The overall process for concluding the accounts had not been as smooth as previous years as the paperwork received from the Council had required clarification and amendment
- Each local education authority had been required to examine the accounting arrangements for schools i.e. what should or should not be included on the balance

sheet and any requirement for group accounting. It was considered that the Council had not given enough attention to this matter early enough. There was no right answer in this matter but the Council needed to determine an approach and put forward a clear rationale for its approach in the accounts

- A lot of work had been undertaken to resolve the issues regarding capital accounting set out in last year's accounts. Although there had been an improvement, there were still issues that needed addressing
- Audit work had not identified any issues in relation to the significant risks that had been identified in the accounts - improper revenue recognition and management override of controls.
- Operating expenses – Tests had found two particular issue: 1) liabilities – some expenditure had been recorded in the wrong financial year – this did not have a material impact on the accounts; 2) creditor balances – a number of balances had been shown to be over 12 months old. Efforts were being made to quantify the magnitude of this issue but it had no material impact on the accounts
- Employee remuneration – Inadequate supporting documentation had been found for some flexible contracts. No material error had been found but this was a control issue for the Council in the future
- Schools accounting – recognition of voluntary aided and voluntary controlled schools. Councils were required to make a judgement in relation to school buildings and underlying land as to whether they should be included on the balance sheet. Work was continuing with officers to resolve this matter
- Schools accounting – consolidation of maintained schools. Discussions with officers had confirmed that all significant accounting entries were captured for schools via the financial accounting system. However there were areas that had not been addressed including school funds and discussions were continuing with officers regarding the auditing arrangements for these areas
- Two issues had been highlighted in relation to internal control – default passwords on accounts and end-users with conflicting roles. Work had been carried out with officers to ensure that there was a shared understanding of these issues
- In the value for money conclusion, strategic financial planning had been given an amber RAG rating. This was not an uncommon occurrence amongst councils and was not a problem but merely reflected the level of savings that the Council was required to make

- In the value for money conclusion, reporting of commissioning decisions to members had been given an amber RAG rating to reflect the challenges that the Council faced going forward in what was a major area
- The approach to auditing the Pension Fund had changed since the audit plan was presented in March. It was anticipated as part of the plan that the fund would have material level 3 investments, this had not occurred and therefore the additional work initially included in the plan was not required
- There were no adjusted or unadjusted misstatements to report which was a positive position for the Council
- The external auditor had difficulties accessing information for the Pension Fund because of concerns from officers relating to data protection. This should not have been the case as the external auditor had full access rights to this information
- A high error rate had been found in the Pension Fund accounts relating to individual member data. However discussions had been held with officers and the Council's actuary and it was agreed that this had no material impact on the accounts.

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

- Members were concerned that appendices on the financial statements and auditors' reports were received so late as to allow little time for consideration. It was agreed that in future, the Statement of Accounts would be circulated in draft form to members of the Committee at an earlier stage prior to the despatch of the agenda papers
- In relation to a query about the level of school balances, the Chief Financial Officer explained that financial controls had been delegated to schools. The role of the Council was now to provide financial advice to them. Where the school balance was positive, advice was given about spending plans. Where schools had debt issues, support was given to formulate debt recovery plans. The key was ensuring that schools received the right financial support for their circumstances. The £16m of school balances was consistent with other councils
- In these difficult financial times would it be appropriate to review the Council's investment strategy and consider investing more into banks backed by the government? The Chief Financial Officer advised that the ability to invest in state-owned banks had been looked at over the last couple of years. In addition, money had been made by not

borrowing on the debt markets

- In relation to a query about comments made by the external auditor about capital accounting, John Gregory explained that there was a requirement for the Council to include an explanatory note and an accompanying narrative
- Did the external auditor require audited accounts to be submitted by schools where their budget had been devolved to it. John Gregory advised that the majority of transaction of these schools went through the Council's ledger therefore the Council had access to this information. The Council needed a process for obtaining information that did not go through the ledger. This was a one-off audit review of school accounting practises to reflect changes in accounting requirements which was unlikely to have a material impact on the accounts. The Chief Financial Officer added that it was not necessary for schools to produce their own accounts but the Council did need an evidence-based budgetary approach to school budgets
- Did the Chief Financial Officer accept the recommendations made by the external auditor in their report? The Chief Financial Officer commented that a management response to the external auditor's report would be reported to the next Committee meeting
- In response to a query about the Council being in the top 20% of spend per head of population in Environmental Services in the country, the Chief Financial Officer stated that benchmarking data had been analysed to see whether information was assessed in the same way by other councils. John Gregory added that it was good to see that the Council was spending high in high priority areas rather than average spending across all services. It reflected a clarity of vision by the Council
- When would the final fees for the work of the external auditor be known? John Gregory advised that the Council would be informed after the work undertaken on the audit of the accounts had been completed. There had been more work on the accounts than usual and discussions would need to be held with officers about the scale of the fee
- In response to a query about the increase in the Pension Fund liabilities, the Chief Financial Officer explained that the actuary examined the assumptions made in the Pension Fund accounts and then tracked its performance for example where the gilt rate changed, liabilities were adjusted accordingly. This ensured that the appropriate disclosures were set out

in the accounts

- The Committee were reminded that they were required to authorise the Chief Financial Officer to sign the letters of representation.

RESOLVED that:

a) **the Final Accounts Pack including the Statement of Accounts for the financial year ending 31 March 2015 be approved; and**

b) **the Chief Financial Officer be authorised to sign the Letters of Representation on behalf of the Council.**

348 Annual Governance Statement (Agenda item 6)

The Committee considered approving the Annual Governance Statement.

The Chief Financial Officer introduced the report and commented that the Annual Governance Statement confirmed the overall assurance of the Council's systems and had been signed by the Chief Executive and Leader of the Council. Helen Lillington confirmed that the external auditor was content with the Statement.

RESOLVED that the Annual Governance Statement be approved.

349 Corporate and Transformation Risk Report (Agenda item 7)

The Committee considered the latest refresh of the Corporate and Transformation Risk Registers.

The Business Planning and Performance Manager introduced the report and made the following points:

- Subject to approval by this Committee, there would be some minor presentation changes prior to its consideration by Cabinet
- There had not been any change to the RAG rating for the 4 shared risks. It was important to prevent these amber risks from receiving a red RAG rating but at the same time more work was required to mitigate the risks so that they received a green rating
- Demographic changes had been identified as a red RAG rated corporate risk which was a cause for concern for the Council. The Council needed to understand the implications for future service provision
- The risk relating to data security and data protection had reduced from red to amber due to the implementation of the recommendations provided by

the Information Commissioners Office following their visit in 2014
- The inability of Children's Social Care to deliver savings targets due to pressures on placements and staffing budget remained a red RAG rating and a matter for concern for the Council. However an action plan was in place to try and address the issue.

RESOLVED that:

a) the latest refresh of the Corporate and Transformation Risk Registers be noted; and

b) red risks and mitigating actions be noted.

350 Internal Audit Annual Report 2014/15 (Agenda item 8)

The Committee considered the Internal Audit Annual Report 2014/15.

The Chief Financial Officer introduced Garry Rollason from Warwickshire County Council who had taken over audit responsibilities on behalf of the delegated audit service.

Garry Rollason introduced the report and made the following points:

- The number of limited assurance audits had reduced from the previous year. However he added a note of caution as audits tended to vary in nature from year-to-year
- The overall significant assurance opinion had been issued on the design, adequacy and effectiveness of the system of internal control at the Council which was very positive
- The proportion of audit recommendations between high, medium and low was similar to last year
- 94% of audit plans had been achieved. There were a few elements of audit work that remained outstanding but these did not affect the overall opinion.

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

- In response to a query about the programme of internal audit work, Garry Rollason stated that work had continued on the audit plans and a number of them had been finalised. The majority of the audits were expected to receive a significant audit opinion
- The Council was currently spending £6.9m on agency staff annually at a time when permanent staff were

being made redundant. Had any correlation been made to two issues? The Chief Financial officer explained that the majority of agency spend related to hard to recruit job areas for example children's social work. Manager's had available to them a dashboard which ensured that their spend on agency staff did not exceed that of permanent staff.

RESOLVED that the Internal Audit Annual Report 2014/15 set out in the Appendix to the report be endorsed.

351 Internal Audit Risk Assessment and Plan 2015/16 (Agenda item 9)

The Committee considered the Internal Audit Risk Assessment and Plan 2015/16.

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

- It was noted that the total annual input for the internal audit team had been agreed at 1,450 days, was this more than in previous years? The Chief Financial Officer stated that the way in which the number of days had been calculated varied from previous years. However, there had been a reduction in the number of days but there was no assurance that the required audit opinion would be delivered
- In response to a query about Evesham Abbey Bridge, Garry Rollason explained that work had not started on the bridge but had been scheduled for the 3rd quarter.

RESOLVED that the Internal Audit Risk Assessment and Plan 2015/16 be approved.

352 Internal Audit Commissioning Update (Agenda item 10)

The Committee received an update on the internal audit commissioning arrangements.

The Chief Financial Officer introduced the report and commented that the Worcestershire audit team, consisting of 8 members of staff, had successfully transferred to Warwickshire on 1 May 2015. The arrangement ensured the provision of a resilient, high quality and more flexible audit service for Worcestershire into the future. It was also clear that there would be opportunities for both councils to benefit from the synergies from merging the two teams, whether that was through more efficient systems and processes, best practice audit techniques or shared learning and development.

In the ensuing debate, the Chief Financial Officer informed members that district councils were responsible for the Fire Authority's auditing arrangements.

RESOLVED that the content of the Internal Audit Commissioning update report be noted.

353	**Work Programme (Agenda item 11)**	The Committee considered its future work programme. **RESOLVED that the work programme be noted.**

The meeting ended at 11.45am

Chairman …………………………………………….