

## Audit and Governance Committee

### Friday, 11 December 2015, County Hall, Worcester - 10.00 am

		<b>Minutes</b>
<b>Present:</b>		Mr W P Gretton (Chairman), Mrs S Askin, Mr N Desmond, Mr L C R Mallett (Vice Chairman), Mr R J Sutton and Mr P A Tuthill
<b>Available papers</b>		The Members had before them:  A. The Agenda papers (previously circulated); and  B. The Minutes of the meeting held on 18 September 2015 (previously circulated).  A copy of document A will be attached to the signed Minutes.
<b>361</b>	<b>Named Substitutes (Agenda item 1)</b>	None.
<b>362</b>	<b>Apologies/ Declarations of Interest (Agenda item 2)</b>	An apology was received from Mr S J M Clee.
<b>363</b>	<b>Public Participation (Agenda item 3)</b>	None.
<b>364</b>	<b>Confirmation of Minutes (Agenda item 4)</b>	<b>RESOLVED</b> that the Minutes of the meeting held on 18 September 2015 be confirmed as a correct record and signed by the Chairman.
<b>365</b>	<b>Corporate Risk Report (Agenda item 5)</b>	The Committee considered the latest refresh of the Corporate Risk Register.  In the ensuing debate, the following principal points were raised: <ul style="list-style-type: none"><li>• Had officers looked at other similar councils to establish whether they faced the same risks and</li></ul>

examined how they addressed them? The Management Information and Analytics Manager stated that as part of the review, comparisons would be made not only with other councils but also with the private sector. As the commissioning process was rolled out, it was important to learn from the commercial sector, for example learning about the conversion of risk into money

- A more detailed breakdown of the scoring associated with the RAG rating for each corporate risk was requested for future reports.
- What were the mitigating actions in place to address the issues associated with demographic changes and how was progress being monitored? The Management Information and Analytics Manager explained that the biggest piece of work related to the demand management 2020 theme. A working group consisting of representatives from across the Council had been convened to examine the full spectrum of demand management from early intervention to appropriate gatekeeping. He was not aware of the timescale for the reporting mechanism of this group
- Had the higher demand for housing and the impact on planning been taken into consideration in the Corporate Risk Register? The Management Information and Analytics Manager stated that as a general principle, detailed work on risks was picked up by the appropriate service area. The representative of the Chief Financial Officer stated that in relation to the potential increased revenue associated with house building, it was very difficult to predict. There were limited funds available from the Government and the Council had to operate within that restriction.

**RESOLVED that:**

- a) the latest refresh of the Corporate Risk Register be noted, including the red risk identified and mitigating actions; and**
- b) the intention to review the approach taken to managing risk be noted.**

**366 Internal Audit Report - Use of Consultants (Agenda item 6)**

The Committee considered the results of the internal audit on the use of consultants.

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

- Was the Internal Auditor satisfied that good control mechanisms with appropriate checks and balances were in place as a result of the findings of this audit report? Garry Rollason commented that good mechanisms were in place. The C1A form was designed to document appropriate details, including the rationale for engaging consultants and that appropriate approval was given. Compliance was an issue but positive management responses had been received and processes would be tightened to ensure that when the C1A form had not been completed then approval would not be granted and payment would not be made
- The conclusions of the report were disappointing with very few of the actions from the previous audit report being effectively addressed. An explanation of why these actions had not been completed had not been forthcoming and no-one appeared to be held to account for their actions. The Head of Commercial acknowledged that following the previous audit report, the management action did not go far enough. However this report had tightened the governance arrangements surrounding the use of consultants
- It was important that the Committee received a further audit report on the use of consultants in six months time. Garry Rollason responded that it was recommended that an audit report be brought back to this Committee during the 2016/17 financial year. He could not commit to a particular meeting date until the proposed actions had become embedded and consultants had been engaged under the new regime
- There remained ambiguity in the terminology of what was meant by the term consultant. The report indicated that action was not taken on occasion because managers did not realise that they were dealing with consultants. The Head of Commercial commented that the definition of the term consultant was being examined to ensure that there was a clear understanding of what was meant by the term. The definition would be broken down into a number of sub-categories to provide managers with a clearer understanding of what constituted an internal piece of work or a bespoke piece of traditional consultancy work
- What was the annual cost for the use of consultants and how many days of consultancy work had been engaged? The Head of

Commercial stated that she was not in a position to confirm the number of days but the number of exemptions had dropped by 33%. The net expenditure on consultants was £650k in 2013/14, £400k in 2014/15 and was less than £200k this year

- Council's attention should be drawn to Committee's surprise and disappointment at the outcome of the audit report
- A request was made that this audit report be published alongside other completed audit reports
- It was requested that the Overview Scrutiny and Performance Board be asked to consider including the use of consultants in its work programme
- The report indicated that there was no record of consultancy engagement being approved at the required level. Was it fair to say that management were employing consultants in any way they liked? Had the actions of managers been sanctioned at the appropriate level and would consultants have been engaged in any case? The Head of Commercial explained that the request to use an consultant would have been made on each occasion, it was just a question of whether managers had completed the form and then the consultant formally engaged
- How was the use of a consultant permitted when the form had not been completed? Was there a matching process and how was the invoice approved? The representative of the Chief Financial Officer explained that there were existing mechanisms to match purchase orders to invoices. One of the requirements of the new system was that before an order was authorised, a C1A form needed to be completed. If an invoice was received and then a purchase order was received, the system would pick up that it was the wrong way round. It did not always happen in the past but it should. Garry Rollason added that a payment could not be made unless an order was received.

**RESOLVED that:**

- a) the results of the internal audit on the use of consultants attached as an Appendix be noted;**
- b) a further audit be undertaken during 2016/17;**

**367 Annual Audit Letter 2014/15 (Agenda item 7)**

- c) Council's attention be drawn to Committee's surprise and disappointment at the outcome of the audit report; and**
- d) The OSPB be asked to consider including the use of consultants in its work programme.**

The Committee considered the Annual Audit Letter 2014/15.

John Gregory from Grant Thornton, the Council's external auditor introduced the report and highlighted the following points:

- This Annual report was an update of his report to Committee in June 2015. An unqualified audit opinion had been given on the accounts, the value for money and Pension Fund
- Discussions had been held and continue to be held with officers about the delays to last year's audit and the associated additional fees. He was optimistic that these delays would not re-occur in this year's audit
- He had reported in June that there was likely to be additional fees. Discussions had been held with the Chief Financial Officer at the conclusion of the accounts and an additional fee of £8,900 had been agreed
- A fee of £4,200 had been agreed for audit work associated with teacher's pension return. A fee of £3,000 had also been agreed for audit work associated with HCA compliance audit – gypsy and traveller sites. Although this work was requested to be done by the Council, it was a requirement that an independent reporting accountant such as the external auditor undertook the work
- The Government was introducing changes in the way the accounts would be produced for implementation in 2018. The Government had effectively brought the accounts process forward by 2 months. He did not anticipate that there would be a problem for this Council as it already produced its accounts in advance of the statutory deadline.

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

- The representative of the Chief Financial Officer explained that the Council was already producing

the accounts within the proposed timescale set out by the Government in its revised legislation therefore he anticipated very little disruption to work practices as a result. The Council had taken on board the advice from the external auditor about improving processes for next year and had adopted a different approach whereby the 2015/16 accounts had been divided into different sections of work with the aim that the work was handled more effectively and dealt with earlier. Grant Thornton had approved these processes. There were significant changes in the accounts in relation to disclosure and discussions had been held with highways engineers to include an entry on the balance sheet for highways infrastructure. The Council had an action plan in place to improve capital transactions across property services. The Annual Governance Statement process had been reviewed and the risk management group would now be involved in the process

- The inclusion of highways infrastructure on the balance sheet was welcomed however would the timescale for the production of the accounts be affected by this extra work? John Gregory commented that Grant Thornton was running a series of workshops in the new year. The aim was to work with clients to gain an understanding of the process as early as possible to avoid issues later in the accounts process
- In response to a query, the representative of the Chief Financial Officer explained that the difficulties experienced by the external auditor in accessing Council documents had now been resolved. It related to a concern officers had about the release of sensitive information to external agencies. The Council now had an agreed process with Grant Thornton to handover data in an encrypted and password protected way
- In response to a query, John Gregory explained that the formal objections to the accounts related to the 2013/14 accounts and had been dismissed. The fee of £30k related to this work. Nothing had been heard since from the objectors for the 2014/15 accounts. The certified Certificate of Completion for 2014/15 accounts had been signed and therefore there was no further statutory right of objection.

**RESOLVED** that the Annual Audit Letter 2014/15 be noted.

**368 Transfer of Finance Presentation (Agenda item 8)**

The Committee received a presentation by the representative of the Chief Financial Officer on the transfer of Finance to Liberata UK Limited.

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

- Were officers confident that the mistakes made in the transfer of Learning and Achievement staff to Babcocks would not be repeated in these arrangements? The representative of the Chief Financial Officer stated that redundancies were not anticipated in this case as it was a service transformation and change in IT systems. The Head of Commercial added that the arrangements for staff transfer would be made through TUPE to ensure that the correct processes were followed
- If the reduction in the cost of the provision was not to be made through staff reductions, how would the savings be achieved? The representative of the Chief Financial Officer explained that there were many different functions of the SAP system which were not necessarily relevant to the Council's needs and it was not considered reasonable to maintain the cost of such an expensive system. Therefore part of the tender was to come up with a cheaper system which was more aligned with the Council's financial systems
- Would the Council still be required to use SAP in the future? The representative of the Chief Financial Officer stated that although there would be a cross over period for SAP and the new system, in the long term SAP would no longer be used
- The representative of the Chief Financial Officer confirmed that Liberata would be required to provide key performance indicators
- If Liberata were considered to be an established company in this area of work, why did they require an office in the Worcester area? The representative of the Chief Financial Officer stated that Liberata had determined that this contract provided them with the opportunity to establish a market locally and had therefore committed to locating in the Worcester area
- John Gregory explained that the same accounting control mechanisms would be in place for Liberata albeit the accountancy work associated with it would be a bit more complicated
- Garry Rollason stated that next year would be a

key year as Internal Audit would need to review the Council's proposed control arrangements for any changed systems

**RESOLVED the presentation on the transfer of Finance to Liberata UK Limited be noted.**

**369 Internal Audit Progress Report - 1 August - 31 October 2015 (Agenda item 9)**

The Committee considered the Internal Audit Progress Report.

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

- In response to a query about Evesham Abbey Bridge, Garry Rollason stated that it made sense to engage specialist consultants in forensic delays to carry out the work associated with this audit
- In response to a query about Malvern Link Railway Station, Garry Rollason indicated that the nature of the work meant that the audit was taking time to complete. He was not aware of any difficulties associated with the audit work
- What was the particular focus of the audit on Transport? Garry Rollason explained that the request for the audit had been made by the Head of Service with the aim of providing him with an understanding of the subject matter and was therefore broad in nature
- Only 2 audits had yet to be completed in 2015/16, was the Internal Auditor confident that all the audit work would be completed within the required timescale? Garry Rollason stated that he was confident that the work would be completed on time. Many of the audits had been timetabled for the latter part of the year which had distorted the figures.

**RESOLVED that the Internal Audit Progress Report be noted.**

**370 Work programme (Agenda item 10)**

The Committee considered its future work programme.

**RESOLVED that the work programme be noted.**

The meeting ended at 11.40am.

Chairman .....