

COUNCIL
12 SEPTEMBER 2019**REPORTS OF COMMITTEES****SUMMARY OF DECISIONS TAKEN BY THE AUDIT AND GOVERNANCE COMMITTEE**

Internal Audit Annual Report 2018/19

1. Internal Audit is required by professional standards to provide a written annual report. The requirements of auditing professional standards that an annual report be presented to those charged with governance is discharged through the Annual Report and it identifies that the Council's overall control environment is moderate, which is in line with previous years' judgements. The Committee has endorsed the Internal Audit Annual Report 2018/19.

Statutory Accounts and Pension Fund 2018/19 – External Audit Findings Report

2. Peter Barber, Key Audit Partner and Helen Lillington, Engagement Manager from Grant Thornton, the Council's external auditor, presented the External Audit – Findings Report for the Worcestershire County Council Statutory Accounts 2018/19 and Worcestershire County Council Pension Fund Accounts 2018/19. The report summarises the conclusions and key issues arising from the recent audit of the Council's financial statements and their assessment of the Council's arrangements to secure value for money in its use of resources. It also summarises the conclusions and key issues arising from the recent audit of the Pension Fund's financial statements.

3. The key issues in relation to Worcestershire County Council Statutory Accounts 2017/18 were:

- Grant Thornton anticipates issuing an unqualified audit opinion, subject to outstanding queries being resolved
- Grant Thornton identified a number of misclassification and disclosure changes. All material changes have been adjusted. There remain a small number of non-material changes which have not been adjusted in the accounts and these are recommended by Grant Thornton as future improvements which are accepted.

4. The key issues in relation to Worcestershire County Council Pension Fund Accounts 2018/19 were:

- Grant Thornton anticipates issuing an unqualified audit opinion, subject to outstanding queries being resolved
- Grant Thornton have identified a small number of presentation and disclosure changes and they have all been adjusted.

5. The Committee has noted Grant Thornton's Audit Findings Report for the Worcestershire County Council Statutory Accounts 2018/19 and Worcestershire County Council Pension Fund Accounts 2018/19 be noted. The Committee has authorised the Chief Financial Officer to sign the Letters of Representation on behalf of the County Council.

Annual Governance Statement 2018/19

6. The Council is required, as part of its ongoing review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2018/19. This has been signed by the Leader of the Council and Chief Executive. The AGS will form part of the Annual Statement of Accounts.

7. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2018/19 and takes into account any significant issues of governance up to the date of publication of the Statement of Accounts. The AGS outlines the actions taken or proposed to address governance issues identified.

8. The AGS includes the following governance issues as areas for improvement. Items which were included in the 2018/19 AGS and remain governance issues following review in 2018/19: Sustainable improvement in Children's Services; Ensuring the delivery of the Council's vision and corporate objectives, in line with the Medium-Term Finance Plan; and Staff capacity, recruitment and retention. The following new issues have been identified as part of the 2018/19 review process: Sustainable improvement in Children's Services; Serious harm or death of a child or young person; Activity exceeds budget allocation; Serious harm or death of a vulnerable adult; and Staff capacity, recruitment and retention.

9. Grant Thornton, the Council's external auditors, have considered the AGS as part of their external audit, and have confirmed that it is consistent with their knowledge of our organisation and the financial statements. The Committee has approved the AGS 2018/2019.

Annual Statutory Financial Statements for the year ended 31 March 2019

10. The financial position reported in the Council's Statutory Accounts for 2018/19 was an overspend of £2 million against the net budget of £324 million, with an accounting deficit, which includes adjustments of £49.7 million, for pension's actuarial costs, capital costs and other financial adjustments, of £52.6 million. The Council's General Fund reserve balance remains at £12.2 million, whilst there has been a decrease of £2.9 million on available earmarked reserves taking their balance at 31 March 2019 to £81.5 million.

11. The value of the Pension Fund's net assets increased by £94.3 million from £2,701.0 million at 31 March 2018 to £2,795.3 million at 31 March 2019. During the year a surplus resulted on the Pension Fund accounts totalling £16.8 million, a decrease of £98 million from a surplus of £114.8 million in the previous year. This was mainly due to some Fund contributors paying their 3-year contributions fully in 2017/18.

12. The Court of Appeal judgement in relation to the McCloud pension case has indicated that the LGPS pension fund is likely to be liable for adjustments relating to age discrimination relating to the implementation of transitional arrangements on changing benefits. The Pension Fund, on behalf of the employers in the scheme, commissioned an updated valuation for the actuary to take account of this judgement. This resulted in a £6.5 million increase in past service liabilities and a £1.3 million projected service cost increase for the County Council.

13. The external audit has identified a number of non-material corrections which have been agreed and completed. There have continued to be improvements in the quality of the working papers including reporting from the e5 financial system and the quality of some source documentation, which caused several issues in the 2017/18 accounts.

14. The Value for Money assessment has concluded that the Council has proper arrangements in all significant areas. The Committee has approved the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2019. Since the Committee, the Accounts have been signed off unqualified and on time and are available at http://www.worcestershire.gov.uk/downloads/download/44/worcestershire_county_council_financial_accounts

Internal Audit Progress Report – July 2019

15. Six audits have been completed in the first quarter of 2019/20 with one 'limited' assurance. In addition, two reports have been issued in draft and a further six audits started. The report also identifies two additions to the Audit Plan. A new Chief Internal Auditor has been appointed and the system is due to go live in August 2019. At the same time additional resources is being sourced on a temporary and permanent basis to ensure delivery of the Plan in year.

16. The main issue Committee have had particular focus on is the progress of recommendations. The total of recommendations outstanding have fallen by 16 and all of request for responses were received. Overall this level of understanding and compliance is a significant improvement from 12 months ago. The Committee has noted the Internal Audit Progress Report.

Corporate Risk Report

17. The Corporate Risk Register provides a mechanism for collating and reporting risks that could affect the delivery of corporate objectives. In April 2017 the Council adopted an electronic risk register tool to hold in one place all the major risks identified by individual Directorates and major projects. A scoring system is used to rate individual risks. This allows risks to be ranked and provides a view of the highest risks identified across the organisation.

18. At the end of Quarter Four 2018/19 there were 127 individual risks entered in the risk register of which 14 were identified as high / "red" risks. The risks in the register have been reviewed significantly since Q2 2018/19 (when 187 risks were reported) and risks that no longer exist have been removed, whilst similar risks entered multiple times by different directorates have been rationalised.

19. The highest risks have been grouped into five risk areas, following discussion by the Corporate Risk Management Group (CRMG) and the Performance and Transformation Board as follows: Safeguarding vulnerable children; Education; services for vulnerable adults; Compliance management of the council's estate; and business continuity response to major event. Two further risk areas that have previously been reported as high / "red" are highlighted as medium / "amber" following significant mitigating activity during 2018/19 as follows: financial control; and staff capacity, capability and productivity.

20. The Committee has noted the Corporate Risk Register including mitigating actions identified in respect of red risk and agreed that reports be received on a quarterly basis.

Work Programme

21. The Committee has noted its future work programme.

Mr N Desmond
Chairman

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Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meeting of the Audit and Governance Committee held on 29 July 2019.