

**COUNCIL**  
**10 SEPTEMBER 2020****REPORTS OF COMMITTEES****(a) SUMMARY OF DECISIONS TAKEN BY THE AUDIT AND GOVERNANCE COMMITTEE**

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**2019/20 Internal Audit Final Report**

1. The Committee has received a summary of the Internal Audit work during 2019/20 and as required by the Accounts and Audit Regulations 2015, an overall opinion of Moderate Assurance of the Council's control environment has been given. The Committee has noted the Internal Audit 2019/20 Final Report and assurance level.

**Statutory Accounts and Pension Fund 2019/20 - External Audit Progress Report**

2. In response to an unprecedented situation relating to the COVID-19 pandemic and the need to reduce the immediate resources pressure on councils and auditors to meet statutory audit deadlines, the Accounts and Audit Regulations 2015 have been amended to allow the publication of the statement of accounts and public inspection of the accounts to be delayed.

3. Therefore, instead of being in a position to potentially sign off the audit the Council has received a Progress Report prepared by the Council's external auditor, Grant Thornton, on progress made and any issues arising from the external audit of the Council's and Pension Fund's financial statements.

4. Both audits are substantially complete which is an excellent achievement considering the impact on working arrangements across the Council's and Grant Thornton's teams.

5. There has been an increased focus on asset valuations and management's assessment of the key assumptions used by the Council's property valuers and actuary, together with an increased volume of transactions testing following a reduction by Grant Thornton in their assessment of the Council's materiality value.

6. It is anticipated that the remaining work including consideration of Value for Money and taking into account the financial impact of COVID-19 on the accounts will be reviewed over the next few months with updates brought to the Audit and Governance Committee at its 2 October 2020 meeting. The Committee has noted the contents of the External Auditor's Progress Report with regard to progress made towards the Worcestershire County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20.

## **Draft Annual Governance Statement 2019/20**

7. 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 2019/20. The AGS will form part of the Annual Statement of Accounts and it is anticipated the final version will be signed by the Leader of the Council and Chief Executive and available for approval by the Committee at its meeting on 2 October 2020.
8. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2019/20 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.
9. The draft 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 2019/20 are: Serious harm or death of a child or young person; activity exceeds budget allocation; and serious harm or death of a vulnerable adult. The following items were brought forward from the 2018/19 AGS but are no longer considered a governance issue: Sustainable improvement in Children's Services; and Staff capacity, recruitment and retention. The following issues have been identified as part of the 2019/20 review process: Serious harm or death of a child or young person; activity exceeds budget allocation; serious harm or death of a vulnerable adult; and COVID-19 Impact upon governance arrangements.
10. Grant Thornton, the Council's external auditors, will consider the AGS as part of their external audit, with the aim of confirming that it is consistent with their knowledge of our organisation and the financial statements. The Committee has noted the draft Annual Governance Statement 2019/20.

## **Draft Annual Statutory Financial Statements for the year ended 31 March 2020**

11. In response to an unprecedented situation relating to the COVID-19 pandemic and the need to reduce the immediate pressure on councils and auditors to meet statutory audit deadlines, the Accounts and Audit Regulations 2015 have been amended to allow the publication of the statement of accounts and public inspection of the accounts to be delayed. Notwithstanding this, the Council has continued to prepare its accounts according to its existing timetable, at the same time increasing its output by producing new Group Accounts and enhancing the supporting evidence and working papers considering the uncertainty around COVID-19.
12. The Council has worked with Grant Thornton throughout and recognised that whilst audit fieldwork could be completed with only minor disruption, it was always likely to be the case that the additional consideration of the impact of COVID-19 on the accounts and in particular asset valuations and overall financial impact was likely to take longer for the External Audit team to consider, especially as circumstances continue to change. It is anticipated that all parts of the accounts process will be completed well within statutory deadlines, with audited accounts presented to the Committee meeting on 2 October 2020.

13. The financial position reported in the Council's Statutory Accounts for 2019/20 was an overspend of £0.3 million against the net budget of £330 million, with an accounting deficit taking into account pension's actuarial costs, capital costs and other financial adjustments, of £16.1 million. The County Council's General Fund reserve balance remains at £12.2 million, whilst there has been a decrease of £5.2 million on available earmarked reserves taking their balance at 31 March 2020 to £76.3 million.

14. The financial impact of the COVID-19 lockdown on the Council and Pension Fund's assets has given rise to further work to ensure the accounts reflect any possible over or understatement of assets. To a great extent this is a matter of professional judgement with RICS guidance having been issued to property valuers that there is a risk of material uncertainty as a result, and the Pension Fund Actuary having similar considerations. Nevertheless, there has not been a material impact on any asset category nor evidence since the valuation data that needs to be taken into account.

15. The value of the Pension Fund's net assets decreased by £160.3 million from £2,795.3 million at 31 March 2019 to £2,635.0 million at 31 March 2020. During the year a surplus resulted on the Pension Fund accounts totalling £9.2 million, a decrease of £7.6 million from a surplus of £16.8 million in the previous year. The Committee has noted the draft Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2020.

### **Internal Audit Progress Report and Anti-Fraud and Corruption Strategy**

16. The main audit work in the first quarter relates to the Governance Control Framework. The terms of reference for Executive Decisions and Meetings, Business Continuity Planning and Delegation Arrangements have been agreed. The Business Continuity Planning audit would have been carried out later in the year as a follow up to a limited assurance audit but has been escalated in response to the risk level as a result of both the January flood response and the Covid 19 pandemic response. This work will continue during Quarter 2, with regular updates to Senior Leaders and the first stage report will be available by the end of September; follow on work from there will be determined by the stage of the pandemic response.

17. All the Council's schools have been fully risk assessed, utilising intelligence from the Schools' Finance Team and Worcestershire Children First. This follows a sustained period of minimal audit engagement with schools. 5 schools have been identified (over and above those due limited assurance reviews) which will be audited in the next quarter. The focus on schools in this way may will lead to an increase in adverse audits. The Committee has noted the Internal Audit progress report. be noted.

18. The Committee has approved the Anti-Fraud and Corruption Strategy which will be introduced across the Council in 2020/21 and a training programme rolled out.

### **Risk Management Update**

19. The risk management function transferred to the Internal Audit team in April of this year. This was during the Covid19 emergency response and the risk process has been focussed on supporting this.

20. The risks have focused on thematic areas, including community protection, partnership working, financial and communication. The standard risk assessment and profile has been completed by risk owners with review and any further action assessed by Silver Command. Initially, one red risk was been identified - There is a risk of diminishing availability of care home beds in Worcestershire as more care homes become subject to Covid19 infections, with the risk that they are unable to accept new admissions, or in the worst-case scenario become financially unviable. However the Committee were informed that three additional red risks associated with Covid 19 had been identified which related to transport, mainly around bus services, school transport and issues associated with schools reopening in September. The Committee has noted the Risk Management update.

### **Income and Debt Management update**

21. In response to an unprecedented situation relating to the COVID-19 pandemic and the need to reduce the immediate pressure on the Council's resources and redirect all efforts to the support and prevention of COVID-19 the decision was taken to pause the Income and Debt Management transformation work.

22. As a result, all non-urgent billing was suspended. The year-end account's position was updated to reflect the potential impact on the bad debt provision, with a £1.2 million increase being made in the provision. Discussion and reporting was also provided to Government to reflect our potential forecast of the impact of COVID19 on our debt position. Over the last four months this forecast has been scaled back as new data becomes known and billing and collection started again on 1 July 2020. Any risk of write off is now within the forecast provision, and further guidance has been received from Government on the recoup of lost income.

23. Overall, in the first quarter the debt greater than 30 days increased by £2.5 million. This is being analysed and resources will now be focused on recovery of this and all sums. Progress on recruiting and appointing to the centralised income and debt management team was also suspended due to the COVID19 response, but work has now started again. The Committee has noted the latest update on Income and Debt Management and that a further update be reported to the next meeting.

### **Work Programme**

24. The Committee has noted its future work programme.

**Mr N Desmond**  
**Chairman**

### **Contact Points**

Contact Points for this report  
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## **Background Papers**

In the opinion of the proper officer (in this case the Assistant Director for Legal and Governance) 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 30 July 2020.

<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=135&Year=0>