

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

Local Audit Reviews and Guidance Note

1. In June 2019 Sir Tony Redmond was asked by the then Secretary of State for Ministry of Housing, Communities and Local Government (MHCLG) (Rt Hon. James Brokenshire MP) to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting – The Redmond Review. In April 2020 a new Code of Audit Practice came into force and consultation started shortly afterwards on its application and guidance for 2020/21 external audits. The Redmond Review was published early September 2020 and includes reference to the Audit Code, the consultation on which also closed early September 2020.

2. The report is broken down in to 8 sections, with an Executive Summary and recommendations. The Review is broken down into 4 key component areas:

- The regulation, procurement and performance of external audit: Sections 2-4
- The role of the Audit Committee and governance arrangements in place locally around audit: Section 5
- Audit coverage of financial resilience of local authorities: Section 6. This section links heavily to the Audit Guidance Note (AGN) 3 which sets out how local auditors are expected to approach and report on their Value for Money work under the new Code of Audit Practice
- The transparency of local government financial statements: Section 7.

Section 8 covers issues related to smaller audits, including parish / town councils that councillors may be interested to note.

3. The Committee has noted the report and appendices and wishes to bring the following observations on the initial review of the Sir Tony Redmond Independent Review of Local Audit to Council's attention:

- The findings of the review were broadly welcomed and accepted, especially the creation of a new body, the Office of Local Audit Regulation to manage, oversee and regulate local audit

- The Committee were open-minded about the appointment of an independent member but had reservations about what value the role could add to the work of the Committee
- The Committee did not feel that it was appropriate for the External Auditor to present an Annual Audit Report to the first Full Council after the 30 September deadline for the publication of the Annual Statutory Financial Statement as it undermined the important role of the Audit and Governance Committee, and
- The proposed extension to the deadline for the publication of the Annual Statutory Financial Statement up to the 30 September each year was welcomed but it was considered that local practices should be recognised which might be better suited to publication by the existing deadline of 31 July.

Internal Audit Progress Report

4. 10 audits are currently underway, including 5 of schools. The Corporate Governance - Covid 19 audit is an overarching thematic piece of work with 3 sub-areas – business continuity, executive decisions and governance meetings. A programme of school audits has been started following the Council’s risk assessment framework. 20 schools have been identified where an audit is required and the next tranche is being arranged.

5. Audit work has continued all year and audit actions have been completed within a reasonable timescale. As part of our ongoing improvements to the audit process, clearer guidance is being provided to operational managers about the priority which should be given to resolving actions identified. Actions are tracked and regular contact is made with operational managers to follow up progress. There are currently 16 audits with 55 open actions.

6. Due to the impact of the Covid pandemic, the planned audits for the remainder of the year have been re-assessed on both the ability to carry out the audits and operational ability to respond. Priorities have been adjusted to support the organisation and provide the necessary review and challenge during a time of significant change and uncertainty. The Committee has noted the Internal Audit progress report and approved the Internal Audit work programme for quarter 3.

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

7. Peter Barber, Key Audit Partner from Grant Thornton, the Council's external auditor, presented the External Audit – Findings Report for the Worcestershire County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20. 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. This Council will be one of the first County Councils to have produced and have audited accounts available for this year.

8. The key issues in relation to Worcestershire County Council Statutory Accounts 2019/20 are:

- Grant Thornton anticipates issuing an unqualified audit opinion, subject to outstanding queries being resolved
- The audit identified a number of misclassification and disclosure changes. All material changes have been adjusted
- The audit did not identify any events or conditions which may cast significant doubt on the going concern assumption
- The audit opinion for the County Council includes an 'Emphasis of Matter' comment with regard to the potential effects of COVID-19 on the valuation of Land and Building Assets. This refers the user of the accounts to Note 15.10 where the Council's Valuer has followed RICS guidance and acknowledged that there may be a material uncertainty on the valuation work undertaken this year. This is standard guidance and is expected to be the case across all local government audits
- 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.

9. The Committee has noted Grant Thornton's Audit Findings Report for the Worcestershire County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20.

Annual Governance Statement 2019/20

10. 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. The draft AGS was reported to the last Committee meeting on 30 July 2020 since then there have been no changes made to it.

11. 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.

12. 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. Unfortunately, the Engagement Manager for Grant Thornton was unable to attend the Committee meeting due to ill-health. As a result of the illness Grant Thornton have not been able to conclude their own internal review process and therefore the Annual Statutory Financial Statements for the year ended 31 March 2020 could not be formally signed off at the meeting and as a result the Annual Governance Statement could not be approved.

13. The Committee has agreed that subject to the approval of the Worcestershire County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20 by the Chairman in consultation with the Vice-Chairman, the Chief Financial Officer has been authorised to arrange for the Annual Governance Statement 2019/20 to be formally signed by the Chief Executive and Leader of the Council. If the Accounts cannot be signed off as set out above then consideration of the Annual Governance Statement 2019/20 be deferred to a special meeting of the Committee prior to 30 November 2020. Subsequent to the meeting and following confirmation that the County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20 had been signed off on 27 October 2020, the Chief Executive and Leader of the Council have signed the Annual Governance Statement 2019/20.

Annual Statutory Financial Statements for the year ended 31 March 2020

14. 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.

15. 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.

16. The financial position reported in the Council's Statutory Accounts for 2019/20 is 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.

17. 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.

18. The value of the Pension Fund's net assets decreased by £149.9 million from £2,795.3 million at 31 March 2019 to £2,645.4 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.

19. As referred to in paragraph 13 above, it was not possible to sign off the Accounts at the Committee meeting and therefore the Committee has agreed that the Chief Financial Officer provides a full update to the Committee by the end of October on Grant Thornton's progress on their final sign off and any changes, if any, and the proposed next steps. It is assumed that if there are no material changes or issues arising then the Committee recognises the technical reasons for not being able to sign off the accounts at this meeting and therefore the Chairman in consultation with the Vice-Chairman of the Committee has been authorised to approve the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2020, assuming there are no material issues or disputed amendments remaining as advised by Grant Thornton. If there are any material adjustments or disputed changes that differ from the Audit Findings Report then the above procedure cannot be followed through and instead a special meeting of the Committee will be convened before 30 November 2020 to sign off prior to the deadline. Following approval by the Chairman, in consultation with the Vice-Chairman, and with prior notification of the Committee, the Chief Financial Officer has been authorised to sign the Letters of Representation on behalf of the County Council.

20. Subsequent to the meeting, the external auditor has issued an unqualified opinion and with no other issues or changes to those reported to Committee, the County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20 were published on 27 October 2020.

Income Management

21. Whilst collection of aged debt was paused due to recovery and response in relation to COVID-19, a reboot has taken place since the last Committee meeting with a deeper analysis around corporate debts that are over 30 days old. However, progress has been slow due to the current complexity of managing this within the COVID environment. The latest level of total debt stands at £22.2 million, 79% (£17.5 million) of which was raised over the last year and a half.

22. The debt over a month old that is not scheduled to be collected by agreed instalments totals £16.8 million (76%), which is £6 million more than last reported to Committee. This increase was expected due to the prioritisation of workload as a result of COVID-19 response and recovery. However, action is now needed to recover this. A further analysis has been undertaken of all debts greater than £50,000. In total there are 49 such debtors which account for £12.1 million, that is 48% of the total debt due greater than 30 days. Of this, £3.5 million is with the NHS and £2 million with other public bodies

23. One positive to note in the last few months has been the significant increase in payment instalment plans agreed with debtors. When last reported to Committee there was a total of £0.651 million of debt being collected in this way, that has now risen to £1.9 million. There has also been a number of successful court settlements reached. The Committee has noted the Income Management Report.

Risk Management Update

24. Covid risk management is still the focus of the work, including the collation, challenge and reporting of Covid risks to support silver command. Over the period, some risks which had previously been reduced in severity are re-emerging. This is not unexpected and is in line with the national trajectory of the Covid response. More recent risks relate to the projected second wave and the Council's response. This includes the adult social care impact, supporting children if school closures are required and ensuring resource for the Local Outbreak Response Team (LORT). The red risk is for social care placement availability – diminishing availability of care home beds in Worcestershire. Considering the potential second wave, visitors to care homes are being discouraged. The situation continues to be closely monitored.

25. Non-Covid corporate risks are not being collated centrally and are being managed on an operational basis. The Chief Officer Group (COG) has requested the establishment of a Task and Finish Group to work on a new corporate risk approach. A revised process will be delivered to COG on 12 October and, subject to approval, will be implemented with a full corporate risk update provided to the Committee meeting in December. The Committee has noted the Risk Management update.

Work Programme

26. The Committee has noted its future work programme and requested that a training session on the Value for Money audit be arranged prior to its meeting on 4 December 2020.

Mr N Desmond
Chairman

Contact Points

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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 2 October 2020.

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