

## **COUNCIL**

### **11 NOVEMBER 2021**

## **REPORTS OF COMMITTEES**

### **(a) SUMMARY OF DECISIONS TAKEN BY THE AUDIT AND GOVERNANCE COMMITTEE**

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#### **Internal Audit Progress Report**

1. During the Covid-19 pandemic, school audits were undertaken remotely by a self-assessment work programme which was completed by the school staff and then reviewed by Internal Audit with follow up questions and online meetings as required. The schools work programme has been revised now restrictions are being lifted with the aim of resuming on-site visits (where feasible and in line with current restrictions).
2. Audit actions are tracked by Internal Audit, and regular contact is made with operational manager to follow up progress. For actions relating to limited assurance audits where a follow up audit is planned, actions are transferred to the new audit. This applies to the following four audits: Capital and Business Case Development; Debt Management; Long term agency and consultancy placements; and Governor support and training - thematic review.
3. There have been 8 cases of fraud reported to the team in the last 6 months. 2 cases resulted in special investigations with subsequent advisory reports, however no fraud was identified. A further 3 cases have received advice on strengthening their fraud controls. 3 cases remain open; these are to support HR and a referral to Action Fraud. The increasing engagement has encouraged wider team members to contact the team to seek fraud advice which will help to prevent cases in the future. The Committee has noted the Internal Audit Progress Report.

#### **Statutory Accounts and Pension Fund 2020/21 - External Audit Findings Report**

4. Peter Barber, Key Audit Partner and Helen Lillington, Senior Audit Manager from Grant Thornton, the Council's external auditor, presented the External Audit – Findings Report for the Worcestershire County Council Statutory Accounts 2020/21 and Worcestershire County Council Pension Fund Accounts 2020/21. In response to COVID-19, the requirement to prepare draft accounts by 31 May has been extended to 31 July and the requirement for the public inspection period has been amended to commence on or before the first working day of August 2021.
5. The key issues are given in the draft of the Grant Thornton report and are summarised below:

- Grant Thornton anticipates issuing an unqualified audit opinion, subject to any minor 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
- 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

6. The Committee has noted Grant Thornton's Audit Findings Report for the Worcestershire County Council Statutory Accounts 2020/21 and Worcestershire County Council Pension Fund Accounts 2020/21.

### **Annual Statutory Financial Statements for the year ended 31 March 2021**

7. In response COVID-19 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 completed the 2020/21 draft accounts according to its planned timetable and has continued to enhance its supporting evidence and working papers, particularly in areas where professional judgement has been applied. The Council has worked with Grant Thornton throughout with the majority of audit fieldwork completed remotely by the External Audit Team with minimal on-site presence.

8. The financial position reported in the Council's Statutory Accounts for 2020/21 was an underspend of £0.8 million against the net budget of £346.3 million, with an accounting surplus taking into account pension actuarial costs, capital costs and other financial adjustments, of £28.9 million. The County Council's General Fund reserve balance has increased by £0.8 million to £13.0 million and there has been an increase of £25.3 million on available earmarked reserves taking their balance at 31 March 2021 to £96.9 million. Additionally, School reserves of £4.0 million and £13.8 million of Private Finance Initiative (PFI) reserves are retained. The cumulative Dedicated School Grant deficit brought forward from last financial year was £6.2 million which will now be increased by £0.3 million deficit from 2020/21 and the deficit to carry forward into 2021/22 is now £6.5 million.

9. Consideration of the financial impact of COVID-19 on the Council and Pension Fund's assets has been made to ensure the accounts reflect any possible over or understatement of assets. This is a matter of professional judgement and guidance from RICS, in respect of property valuations, and the Pension Fund Actuary has been considered. There has not been a material impact on any asset category nor evidence since the valuation date that needs to be taken into account.

10. The value of the Pension Fund's net assets increased by £719.4 million from £2,645.4 million at 31 March 2020 to £3,364.8 million at 31 March 2021. During the year a surplus resulted on the Pension Fund accounts totalling £116.6 million, an increase of £107.4 million from a surplus of £9.2 million in the previous year.

11. The Committee has agreed that assuming there are no material issues or disputed amendments remaining as advised by Grant Thornton as a result of the additional audit work necessary to finalise the Accounts then the Committee recognises the technical reasons for not being able to sign off the accounts at this meeting and 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 2021. If there are any material adjustments or disputed changes that differ from the Audit Findings Report discussed at today's meeting then the above cannot be followed through and instead a special meeting of the Committee will be convened to sign off the Statement of Accounts prior to the deadline for the submission of the Accounts. 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.

12. Unfortunately it has not been possible to sign off the Accounts by the 30 September deadline. The issue related to technical explanations concerning the calculation of the Capital Financing Requirement (CFR) and the Minimum Revenue Provision (MRP). This was a national not a local issue. Grant Thornton have reviewed this Council's MRP and agreed that it is prudent and correct bar a non-material tweak (c£0.5m), for which the related risk has been resolved. This has no impact on the revenue or balance sheet accounts.

13. There remains, however a technical query regarding the calculation of the CFR – this is essentially a measure of the Council's underlying need to borrow money to finance capital expenditure. A high level analysis undertaken by the External Auditor which compared the CFR with the Council's balance sheet identified that there is a material difference between the two for which further audit work was required. To date, this issue has not been resolved and the Accounts are yet to be signed off.

## **Annual Governance Statement 2020/21**

14. 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 2020/21. The AGS will form part of the Annual Statement of Accounts. The draft AGS was reported to the last Committee meeting on 29 July 2021 to be considered alongside the draft Statement of Accounts also presented at the time. Since then there have been no changes to the AGS.

15. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2020/21 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.

16. 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.

17. The Committee has agreed that subject to the approval of the Worcestershire County Council Statutory Accounts 2020/21 and Worcestershire County Council Pension Fund Accounts 2020/21 by the Chairman in consultation with the Vice-Chairman, the Chief Financial Officer be authorised to arrange for the Annual Governance Statement 2020/21 to be formally signed by the Chief Executive and Leader of the Council. If the above cannot be followed then consideration of the Annual Governance Statement 2020/21 will be deferred to a special meeting of the Committee.

## **Risk Management Update**

18. The revised risk approach has categorised risk across 10 key themes with associated objectives. To enable more strategic reporting, a risk profile has been created for each objective which is evidenced by directorate risks.

19. At the end of August 2021, the Corporate Risk Register contained 253 individual risks of which only 3 were identified as high risk for the Council. The new approach breaks down previous risks into smaller areas which will increase the overall number of risks but provide greater clarity as to why a risk is so high. In addition, each of the 4 directorates plus Worcestershire Children First were asked to rate against 2 risks for each objective to enable a review of specific areas.

20. The majority of risks associated with the Covid-19 pandemic have now returned to a business-as-usual approach, however those still needing a coordinated approach with district councils and other partners are still presented to Silver Command. The risks associated with lateral flow kits and vaccines for carers are being closely monitored. At the same point there were 6 risks on the Covid Risk Register of which 1 was high. The Committee has noted the Risk Management update.

## **Income and Debt Management**

21. In the six months since March 2021, the Debt Team have elicited the recovery of £7.3 million of debt, of which £6.4 million (88%) was repaid, £432k (6%) was cancelled and £457k (6%) was written-off. While this is an extremely positive start, much work remains with over £13.2m debts remaining.

22. The latest level of short-term debt stands at £3.9 million, of which the majority was raised this financial year. This has fallen significantly in the last month mainly as a result of debt chasing and management of old debts, including write off provisions. Collection continues to be prioritised for larger amounts, but work is progressing to address older debts. The total debt recorded greater than 30 days old, for which there is not an instalment or pending cancellation is £13.2 million (64%). This is slightly higher than for the past two months due mainly to the high value of debts raised in July, however the underlying trend is for a downward trajectory and is £3.6m lower than for August 2020.

23. There are seven debts for individuals out of the top 20 outstanding debtors. These are more sensitive as they relate to social care service clients / cases. Six of these cases are currently being pursued by the organisation's legal team and one is awaiting probate. In addition to the general debt noted above, the Council has a Longer-Term Debt that it recognises of c.£1 million relating to social care accrued accommodation costs. This debt is secured against property assets pending sufficient house value. This is regularly reviewed, and charges secured against properties. The Committee has noted the Income and Debt Management report.

### **Training Programme**

24. A training programme has been devised which has been based on the following premises: Short sessions held in advance of each Committee meeting throughout the year; the initial training sessions to focus on the key functions of the Committee; and wherever possible, the training sessions will be linked to the training programme so that members received the appropriate information in advance of the relevant item on the agenda.

25. The Committee has approved the Training Programme as set out below:

<b>Committee Date</b>	<b>Training Subject Matter</b>
3 December 2021	Fraud & Corruption
March 2022	Accounting Policies & Standards

26. The Committee has agreed that members of the Committee complete a knowledge survey to inform longer term training plans for the Committee.

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### **Work Programme**

28. The Committee has noted its work programme with the addition of the Financial Improvement Programme report being brought to the Committee meeting on 3 December 2021.

**Cllr Nathan 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 24 September 2021.

[Agenda for Audit and Governance Committee on Friday, 24th September, 2021, 2.00 pm - Worcestershire County Council \(moderngov.co.uk\)](#)