

COUNCIL

13 JANUARY 2022

REPORTS OF COMMITTEES

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

Statutory Accounts 2020/21 Progress update

1. Following the delegations agreed at the Committee meeting on 24 September 2021, it has unfortunately not been possible to complete the Accounts sign off as anticipated. Late technical queries nationally relating to local government weaknesses particularly around accounting for capital meant further audit testing was required. As such an updated Audit Findings Report (AFR) from the external auditor and the Council's accounts has been re-presented to the Committee for sign off. There are principally a few changes to the accounts presented at the September Committee to the Notes and one Statement – The Group Movement in Reserves (MIRS).
2. Nationally the deadline for the Value for Money (VFM) opinion has been deferred from the end of the 2021 calendar year and is now 28 February 2022. There remains, as planned, some audit fieldwork around the completion of the VFM conclusion and the Whole of Government Accounts statistical return before the Audit Certificate can be issued.
3. Since the last report to Council, the audit process has continued with further queries arising from the Council's external auditor, Grant Thornton's ethical and technical reviews performed in addition to the fieldwork completed by the external audit local team over the summer months. The very late audit testing requirements brought in the final week before the deadline were in response to findings at other councils (Slough and Croydon) relating to weaknesses in capital financing and reporting. There are two main issues that have arisen from this late review and both are reflected in Grant Thornton's AFR, they are:
 - a) The treatment of the financing of the energy from waste site has been amended, but note comments below about the exceptional nature of this; and
 - b) The accounting treatment of two sites when calculating the Minimum Revenue Provision (MRP).

4. Grant Thornton's technical team identified that Worcestershire County Council have not included the PFI liability for the Mercia Waste sites within its Capital Financing Requirement (CFR). In previous years, the CFR was reduced by the value of the PFI Liability to show the waste contract was already financed. It is recognised that the Council's arrangement is unique, and following the additional technical audit review the Council has agreed to amend this disclosure, showing separately the CFR and the Council's underlying need to borrow. There have been a number of consequential disclosure amendments which have been made as a result of this. There are no changes to the Council's balance sheet as a result of this change.

5. The second issue relates to the MRP, that is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). Grant Thornton have carried out significant additional further testing of WCC's approach to calculating its MRP. In just two instances they have found that the calculations may be understated. These are both concerning PFI assets where the Council has assessed the asset life as 90 years. The Council's policy for 2021/22 will be reviewed, however the adjustments themselves are not material and as such the accounts have not been amended to take this into account.

6. The 2020/21 Statement of Accounts, presented to Committee meeting on 24 September 2021, has been updated for the following disclosure items, as agreed with our external auditors: Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP); Details of payments due to be made under Private Finance Initiatives (PFI) contracts; Fair Value of Assets and Liabilities; Cashflow Statement: Investing Activities; and Group Movement in Reserves Statement (MIRS).

7. After the Committee report had been published for the Committee meeting on 3 December, the external auditor made the Council aware of a new technical issue that had arisen on another Authority's external audit in relation to the way in which Place Partnership Limited (PPL) had been recorded in their draft Accounts. Grant Thornton is the external auditor for each of the local authority shareholders of PPL, and under its commercial arm is also the external auditor of PPL. Notwithstanding that Worcestershire County Council is required to account for PPL in consideration of its own materiality levels and relevant accounting standards, each organisation has adopted different accounting treatment that although signed off in prior years, Grant Thornton will re-examine the accounting treatment across all organisations before signing off the 2020/21 Accounts. Worcestershire County Council is ahead of the other organisations in its external audit process and therefore are first to be affected by this late issue. Currently, PPL has not been fully consolidated into the County Council's accounts as a Joint Operation. The external auditor felt that this approach was inconsistent with the approach of other partner organisations and whilst recognising that there was no material impact on the Council's Accounts, there may be a need to make further disclosure information available pending their review.

8. The Committee has noted the updated Audit Findings Report. The Committee has noted the Final Accounts Pack at Appendix 2, including the Statement of Accounts for the financial year ended 31 March 2021.

9. The Committee has authorised the Chairman, in consultation with the Vice-Chairman of the Committee and the Chief Financial Officer, to approve the Final Accounts Pack including the Statement of Accounts for the financial year ended 31 March 2021 at the conclusion of residual audit fieldwork and on the basis that there are no material changes to the primary accounting statements reported at Appendix 2 (Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement). Since the Committee meeting on 2 December, the external auditor has indicated that they are satisfied with the way in which PPL has been recorded in the draft Accounts with no changes necessary. The Final Accounts were signed off by the external auditor on 9 December with an unqualified opinion. The Council was the 5th County Council to be signed off.

10. The Committee has authorised the Chief Financial Officer to sign the Letters of Representation on behalf of the County Council once the Final Accounts Pack is approved.

11. Subject to the approval of the Worcestershire County Council Statutory Accounts 2020/21 by the Chairman in consultation with the Vice-Chairman, the Committee has authorised the Chief Financial Officer to arrange for the Annual Governance Statement 2020/21 to be formally signed by the Chief Executive and Leader of the Council

Appointment of External Auditors

12. Under the Local Audit and Accountability Act 2014, the Council is required to appoint an auditor to audit its Statement of Accounts each financial year. The external audit of local authorities was previously a responsibility of the Audit Commission, established in 1983 for this purpose. The Local Audit and Accountability Act 2014 abolished the Audit Commission as at 31 March 2015 and its functions have since been delivered via the Public Sector Audit Appointments (PSAA), National Audit Office (NAO), Financial Reporting Council (FRC) and the Cabinet Office.

13. The Council's current external auditor is Grant Thornton UK LLP and this appointment covers the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointments arrangements established by PSAA for the period covering the accounts for the five-year period from 2018/19 to 2022/23.

14. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021, all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

15. If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council and a final report will be brought to the 17 February Council meeting. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council must return completed opt-in documents to PSAA by 11 March 2022.

16. The Council may elect to appoint its own external auditor under the Act, which would require the Council to: establish an independent auditor panel to make a stand-alone appointment; and manage the contract for its duration, overseen by the Auditor Panel. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. The recommended approach is to opt in to the national auditor appointment scheme.

17. The Committee agreed that the opt in to the national auditor appointment scheme was the preferred approach for the appointment of external auditors on the basis of the reasons set out in the Committee report and these comments would be incorporated in the report to Council in February.

Internal Audit Progress Report

18. At the end of November 2021, the audit plan included 84 work items. 14 assurance and advisory audits are currently underway or completed with a further 36 planned for the remainder of the year

19. The grant certification work supports the Council in ensuring that money claimed from government agencies is correctly accounted for, and the audit team works closely with operational teams to deliver this. 9 grants with a total value of £31.5m have been certified as accurate to date. 6 grants are currently being audited with an income value to the Council of £43.8m..

20. Fraud and irregularity reports continue to be received via the hotline and internal staff reporting. Of the 12 cases received, 2 have resulted in fraud referrals to the police. The Council continues to engage with the National Fraud Initiative programme, providing key data sets to the Cabinet Office to enable matches to be identified and investigated. The 2020/21 review is underway, with all Blue Badge data reviewed with no issue. Over 70% of Pensions queries have been completed resulting in £860 being recovered. Significant progress has been made in developing key standards to assist in future reviews. A significant increase in engagement with staff on fraud awareness has been undertaken via the online platform Yammer. Alongside this an Anti-Fraud mandatory training module is included in the quarter 3 employee training programme. The Committee has noted the Internal Audit progress report.

Finance Improvement Programme

21. The Finance Team undertook an improvement programme following the learning around the introduction of the new general ledger and purchasing system (E5) in 2018/19. As a result of that programme a number of improvements were made to the way the accounts were produced, the use of collaborative planning as a front end-user tool for budget monitoring, the way files were processed between Liberata and the Council, as well as performance and standardised reporting.

22. During 2021 the responsibility for accounts receivable, accounts payable and schools finance have transferred back in-house from Liberata. The E5 owners (Advanced) have also informed the Council that they will no longer support the current version of our general ledger and as such it needed to be upgraded to the latest version. The Team is also continuing to seek ways to generate efficiencies to meet budget targets (both in Finance and across the Council) as well as ensuring the Council can develop its workforce. Finally, the impact of the Build Back Better White Paper on the way the Council works is not known but the Council is looking at ways to review the approach to working with adult care clients. A second Finance Improvement Programme has therefore been instigated.

23. The programme will include six projects aimed at releasing efficiencies in both Finance and other service areas, and facilitating 'self-serve' and 'automation': Accounts Payable; Income & Accounts Receivable; E5 and collaborative Planning; Financial Regulations; Revenue Budget Monitoring; and People. In addition, there is a seventh project that is part of a wider resources programme to review the Council's Intranet as a single point of access and learning tool for users and managers. The programme will address a series of connected projects that drive change across all aspects of how the Council work and across functions.

24. The Strategic Board is meeting every six weeks to review progress and it is proposed to bring an update and next steps report back to Committee in March with a focus on progress related to E5 and Financial Regulations with further reports brought during 2022/23 on other areas. The Committee has noted the Finance Improvement Programme report and that further updates be brought to the Committee during 2022/23.

Risk Management Report

25. The first phase of the Pentana risk management software is now fully operational and tested. The second phase is currently underway which allows for directorate risk registers to be created from clearly evidenced service risk registers. This will enable the registers to be factually based with clear lines of responsibility. The software allows real time updates, enabling a more proactive approach to risk management than has previously been available.

26. At 18 November 2021, the new risk management system included 794 risks. These are currently divided over service level risk registers which combine to make Directorate Registers and feed directly into the 10 key corporate risk objectives. It is anticipated that both the number of risks and registers will increase as a greater proportion of the operational areas are engaged. All risks associated with the Covid-19 pandemic have now returned to a business-as-usual and incorporated into service risk registers.

27. Three key themes are currently emerging within the risk registers: Environmental; Recruitment; and Supplies. In addition to these themes and supported by current mandatory training, greater focus will be placed on fraud risk management in 2022. The Committee has noted the Risk Management Report.

Training Programme

28. The Committee has previously agreed that a report be prepared setting out a training programme for the life of this Council. A knowledge and skills self-assessment form was circulated to Members to identify gaps in knowledge and tailor future training sessions. Completed responses have been collated and a training programme has been devised to be delivered over the period to December 2024 via short sessions held in advance of each Committee meeting.

29. Initial training sessions will aim to focus on the key functions of this Committee. Where possible, training sessions will be linked to the work programme to ensure that Members receive appropriate training and information in advance of the relevant item on the agenda. The Committee has approved a training programme for the period up to December 2024 subject to an additional training session on procurement being included in the July 2022 training session.

Work Programme

30. The Committee has noted its work programme.

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 3 December 2021.

[Agenda for Audit and Governance Committee on Friday, 3rd December, 2021, 10.00 am - Worcestershire County Council \(moderngov.co.uk\)](#)