

COUNCIL

8 SEPTEMBER 2022

REPORTS OF COMMITTEES

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

2021/22 Internal Audit Annual Report

1. The Committee has received a summary of the Internal Audit work during 2021/22 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 rating is based upon a lack of application and consistency within the Council's control framework; an action plan has been developed in conjunction with the Annual Governance Statement. The Committee has noted the Internal Audit 2021/22 Annual Report and assurance level.

External Audit – Council and Pension Fund Audit Plans and Informing the Audit Risk Assessment

2. Grant Thornton, the Council's external auditor has produced audit plans for the County Council and Pension Fund accounts together with audit risk assessment reports. The Committee has noted the content of the external audit plans and the Informing the Audit Risk Assessment reports.

Draft Annual Governance Statement 2021/22

3. . 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 2021/22. 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 this Committee at its meeting on 23 September 2022.

4. 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. A detailed action plan to ensure that work is undertaken to deliver the areas where it is recognised that governance arrangements could be strengthened, will be developed. Progress against the plan will be reported to this Committee on a quarterly basis.

5. The governance of the Council will continue to be monitored by Cabinet, the Audit and Governance Committee and other committees, and the Council's Strategic and Wider Leadership Teams. 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 the organisation and the financial statements. The Committee has noted the draft Annual Governance Statement 2021/22.

Draft Annual Statutory Financial Statements for the year ended 31 March 2022

6. The Council and Pension Fund are required to prepare annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015, and the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the Council and the Pension Fund, reflecting the Council's outturn position and the Pension Fund net asset position.

7. In response to measures to improve local audit delays, 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. Notwithstanding this, the Council has completed the 2021/22 draft accounts to its planned timetable and has continued to enhance its supporting evidence and working papers in response to prior year audit findings, with a focus on clarity of financial reporting, particularly in areas that involve estimation and judgement.

8. Latest national data on the completion of audit opinions shows that the audit sector continues to face significant challenges. As at 31 May 2022, a total of 51 local authorities have not yet received an audit opinion for 2019/20 with a further 19 opinions delayed from earlier years. There remain 201 audit opinions still in progress for the 2020/21 financial year.

9. For 2021/22, a key issue affecting all local authorities is the accounting treatment and disclosure of infrastructure assets in the financial statements. The Council will continue to work with external auditors on this technical issue and consider developments and formal guidance as it is issued.

10. It is anticipated that all parts of the accounts process will be completed within statutory deadlines, subject to the outcome of current national rulings on the application of IFRS requirements over Infrastructure assets. Dependent on the outcome of this will determine what will be presented at the Committee meeting on 23 September 2022. The deadline for signing is 30 November and the Chief Financial Officer and external auditors will update Committee in September of progress on the audit and in particular this matter.

11. The financial position reported in the Council's Statutory Accounts for 2021/22 was an underspend of £1.3 million against the net budget of £352.5 million, with an accounting deficit taking into account pension actuarial costs, capital costs and other financial adjustments, of £5.5 million. The County Council's General Fund reserve balance has increased by £1.3 million to £14.3 million and there has been an increase of £47.5 million on available earmarked reserves taking their balance at 31 March 2022 to £144.4 million. Additionally, School reserves of £5.4 million and £7.8 million of Private Finance Initiative (PFI) reserves are retained.

12. The cumulative DSG deficit brought forward from last financial year was £6.5 million which will now be increased by £4.8 million deficit from 2021/22 and the deficit to carry forward into 2022/23 is now £11.3 million.

13. The value of the Pension Fund's net assets increased by £219.8 million from £3,364.8 million at 31 March 2021 to £3,584.6 million at 31 March 2022. During the year, a deficit resulted on the Pension Fund accounts totalling £7.4 million, a decrease of £109.2 million from a surplus of £116.6 million in the previous year.

14. The Committee has noted the draft Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2022.

Internal Audit Progress Report

15. Internal Audit are working closely with operational service managers to ensure that actions are undertaken. For actions relating to limited assurance audits where a follow up audit is planned, actions are transferred to the new audit.

16. There have been no fraud and corruption investigations undertaken in the first quarter of 2022/2023. Internal Audit's grant certification work supports the Council in ensuring that money claimed from government agencies is correctly accounted for and Internal Audit work closely with operational teams to deliver this. Two grants have been certified as accurate during the first quarter.

17. Jenni Morris, the Chief Internal Auditor left the Council on 31 July 2022. The Chief Internal Auditor of the Worcestershire Internal Audit Shared Services will act in the statutory role for the Council and provide formal support to the Audit and Compliance Manager, who will manage the audit service on a day-to-day basis. The Committee has agreed the Internal Audit progress report.

Risk Management Report

18. Risk Management is a key part of effective governance for the Council. Understanding the risks the Council faces and managing them effectively has a number of significant benefits, including informed decision-making, planning, and enabling the Council to make the most of opportunities to achieve its strategic ambitions.

19. A Strategic Risk Management Group (SRMG) has been established to provide strategic direction to the risk management process. A strategic framework is being developed to ensure the relevant risks are clearly identified and appropriate mitigation strategies are in place. The Corporate Risk Management Group (CRMG) has set the overall risk framework and has the responsibility of reviewing and challenging

corporate risks monthly, supported by the specialist leads. Corporate risks are those that may have a significant bearing on our ability to deliver the corporate plan.

20. The new risk management system is now in place and has been adopted not only at directorate level but across 30 service areas giving a more accurate picture of risk. This new approach has increased the number of risks which are being operationally managed, giving improved information and a better understanding of the Council's risk profile.

21. As part of the process, risks are identified which have an impact on the ambitions of the corporate plan. The most significant are: Adult Social Care – unprecedented demands leading to delays in the provision of service; and Commercial and Property Team – inflation in construction costs. CRMG is monitoring the existing high risks to escalate any relevant matters to directorate leadership teams. At this stage no escalation outside of the directorates has occurred and any escalation will be aligned with the proposed strategic framework.

22. The Committee has noted the Risk Management update and agreed that a risk management report be brought to the September Committee which will include details of how the Council intended to review its approach to risk management.

Income and Debt Monitoring

23. The Council's debt increased just after the financial year end 2021/22 by nearly £11m. The reason for this is largely due to the year end and billing of clients, as such debt less than 30 days, however by the end of May debt less than 30 days had fallen to average.

24. Longer term debt has continued to increase with debt greater than 12 months accounting for 35% of debt in progress (£6.353m). A further £4.378m (24%) is over 6 months but less than a year overdue. In total 59% of debt is over 6 months old. The majority of this debt sits within the People Directorate which is expected, given the scale of income that service receives. Of the Adult Care debt, £12.6m (35%) is over 12 months due, and a further £3.282m (26%) is over six months but less than a year. That is 51% of the total debt over 12 months and 75% of the total debt over six months but less than a year.

25. Significant work is ongoing with the service to improve both recording and chasing debt. The introduction of changes being brought about through the Adult Social Care reforms under Build Back Better initiatives is going to introduce significant risk and as such the Council is looking at options around this. Of the remaining debt the focus remains on chasing the top debts, this includes a large number of public service bodies. Whilst there is a focus on collecting debt the Finance Team are also working with IT on the refresh of the Council's website to ensure that payment of income is made simple and available for more services.

26. The Committee has noted the Income and Debt Management report and supported the continued actions to recover all debt. The Committee has agreed that an item be added to the September Committee agenda specifically to examine issues associated with debt monitoring in Adult Social Care. The Strategic Director for People has been invited to attend the meeting.

Work Programme

27. The Committee has noted the work programme subject to the addition of an item on Debt Monitoring in Adult Social Care to the September Committee meeting

Cllr Nathan Desmond
Chairman

Contact Points

Contact Points for this report
Simon Lewis, Committee Officer
Tel: 01905 846621
Email: slewis@worcestershire.gov.uk

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 22 July 2022.

[Agenda for Audit and Governance Committee on Friday, 22nd July, 2022, 10.30 am - Worcestershire County Council \(moderngov.co.uk\)](#)