

## Audit and Governance Committee

### Friday, 13 March 2020, County Hall, Worcester - 10.00 am

#### Present:

#### Minutes

Mr N Desmond (Chairman), Dr A J Hopkins,  
Mr L C R Mallett, Mr P Middlebrough, Mr C Rogers and  
Mrs E B Tucker

#### Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 13 December 2019 (previously circulated).

**537 Apologies and  
Named  
Substitutes  
(Agenda item 1)**

Apologies were received from Mr R W Banks and Mrs R Vale.

**538 Declarations of  
Interest  
(Agenda item 2)**

None.

**539 Public  
Participation  
(Agenda item 3)**

None.

**540 Confirmation of  
Minutes  
(Agenda item 4)**

**RESOLVED** that the Minutes of the meeting held on 13 December 2019 be confirmed as a correct record and signed by the Chairman.

**541 Internal Audit  
Progress  
Report and  
Anti-Fraud and  
Corruption  
Strategy  
(Agenda item 5)**

The Committee considered the Internal Audit Progress Report and Anti-Fraud and Corruption Strategy.

In the ensuing debate, the following points were raised:

- What plans were in place to address the issues in processing system for long term placements (agency and consultancy)? Jenni Morris, Chief Internal Auditor explained that it was important that managers undertook appropriate data checks when commissioning agency staff or consultants. The Strategic Leadership Team (SLT) and Human Resources (HR) staff would then monitor the

arrangements. The level of management sign-off would be the same as for other staff. It was also essential that there was an exit plan in place for the end of the contract period. Michael Hudson added that SLT would receive update reports every 6 weeks. This reporting mechanism would be led by HR and reported through Directorate Leadership Teams

- It was important that the Council's policies were disseminated across the organisation and not 'left on the shelf'
- Jenni Morris indicated that transformation and change arrangements had had an impact on the recruitment of external staff and on the practicalities of the audit work. However, despite these circumstances she was confident that an audit assurance would be possible. The role of internal audit should not be about informing staff on where they went wrong but advising them how they could improve performance
- It would appear that a cultural shift was taking place in the organisation whereby managers had a greater understanding of the role of Internal Audit (IA) and were engaging with IA at an earlier stage. In addition, the terminology in audit reports had become more proactive with reference to actions rather than recommendations
- In response to a query about the difficulties experienced in appointing to the position of Audit and Compliance Manager, Jenni Morris indicated that the proposed level of salary had had an impact on recruitment but there was also a general shortage of qualified auditors in the market at present.

**RESOLVED** that the Internal Audit progress report be noted.

**542 Internal Audit Plan 2020/21 to 2022/23 (Agenda item 6)**

The Committee considered the Internal Audit Plan 2020/21 to 2022/23.

In the ensuing debate, the following points were raised:

- Jenni Morris confirmed that a training session on the Controls Assurance Framework would be arranged immediately prior to the start of the Committee meeting on 2 October
- The capital and business case development audit would appear to be a large piece of work touching on a whole range of issues as the population of

the county increased and it was essential that the Council achieved value for money in this area. Michael Hudson indicated that this was an area that SLT had identified as being in need of improvement. Internal Audit would assess the work undertaken to date and what more needed to be done. SLT would lead in this area. Jenni Morris added that Worcestershire Children First had been contacted about the work associated with the management of the school programme which was overdue

- It would seem that a major cultural shift into the way Internal Audit was undertaken in the organisation was necessary. Was the Chief Internal Auditor confident that the requisite skills were available in-house to carry out the detailed plans? Jenni Morris advised that at the moment, there was not the requisite level of expertise however the Interim Audit and Compliance Manager was establishing the processes to help the Council address the skills gap. In addition, different and smarter ways of undertaking the audit work was being considered so that the right questions were being asked to the right people. By July it was hoped to understand and address the training needs of staff. It was also intended to establish apprenticeships with the aim of building a degree of resilience in the Internal Audit workforce and create a new element of challenge to existing practices
- Michael Hudson highlighted that as a matter of good governance, there had been an increased emphasis outlined in the Internal Audit Charter on the independence of the role of the Chief Internal Auditor. Although the Chief Financial Officer would remain the line manager for the Chief Internal Auditor, she would now report to the Chief Executive and SLT. In addition, the arrangements for the appointment and dismissal of this post would be confirmed by the Chief Executive in consultation with the Chairman of this Committee
- In response to a query, Michael Hudson explained that the County Council's Internal Audit function also provided a service to Worcestershire Children First (WCF). Where a key audit issue was identified, it would be reported to the WCF Board and subsequently to the Council through this Committee
- Jenni Morris confirmed that quarterly updates on the progress of the Audit Plan would be reported to this Committee.

**543 External Audit - Council and Pension Fund Audit Plans and Informing the Audit Risk Assessment (Agenda item 7)**

**RESOLVED: that**

- a) the Internal Audit Plan 2020/21 to 2022/23 be approved; and**
- b) the Internal Audit Charter be approved.**

The Committee considered the External Audit - Council and Pension Fund Audit Plans and Informing the Audit Risk Assessment.

Peter Barber and Helen Lillington from Grant Thornton, the Council's external auditors attended the meeting and made the following points:

- Due to the transfer of Children's Services to Worcestershire Children First, the Council was likely to need to produce group accounts for the first time
- This was the first occasion that Grant Thornton had sought advice from an external valuer with the intention of providing an additional level of assurance on the Council's valuation of its land and buildings
- Given the potential impact of the uncertainty of market conditions on the Council's assets, further discussions would be held in order to be able to give assurance on material accuracy
- Although the audit of IFRS 16 leases was not due until 2020/21, the assessment of the impact of this audit had implications for the Disclosure notes in the Accounts
- The group materiality had been re-assessed as £11.8m based on a benchmark of 1.5%. The re-assessment would have implications on the amount of work undertaken by external audit and the Council's finance team
- The only significant risk identified through the VFM audit related the Future Financial Sustainability. The Council was under significant pressure from demand-led services and difficulties in generating additional income therefore balancing the budget in the medium term would become increasingly difficult
- A significant increase in fees was proposed due the increased level of audit procedures. This reflected national issues rather than the work of this Council
- There was an additional fee of £4,250 for the work

associated with the audit of the Pension Fund as a result of extra work on level 3 investments in particular.

In the ensuing debate, the following points were raised:

- In response to a query about the progress of the audit work on the group accounts, Rachael Hart, Financial Reporting Manager commented that work was progressing well and all sides were confident that the right approach had been adopted. Helen Lillington added that work of this Council's finance team would be assessed to ensure that it met the appropriate level of quality assurance
- Was the Council comfortable that the level of disclosure and the impact of the IFRS 16 leases had been properly assessed? Rachael Hart responded that the biggest challenge was collecting the data and identifying the leases. Only 7 leases had been identified as needing disclosure to date
- Would the additional fee resulting from the external valuation be an ongoing cost and would it remain the same or diminish if the valuations by the Council's external auditor were found to be consistent and accurate year-on-year? Peter Barber advised that the use of an external valuer as an additional level of assurance would continue however the level of work required each year and the associated fee would be monitored
- In response to a query, Mark Sanders, Chief Accountant advised that Place Partnership had been made aware of the level of assurance required for assessing the value of the Council's property portfolio
- It was queried why the external auditor required an additional layer of assurance in addition to the valuation advice received by the Council and whether he considered it represented value for money for council taxpayers. Peter Barber commented that there have been examples of clients with complex and hard to value property portfolios where the external auditor did not have the expertise to challenge the expert valuation and the valuation had subsequently proved to be inaccurate. The external regulator, the FRC had raised the lack of challenge as an issue and therefore it was necessary to take this approach. Helen Lillington added that the first phase of the valuation process for this year's accounts had

**544 Income Management (Agenda item 8)**

been completed and no issues had been identified to date

- A query was raised about the impact on the timescale for the Pension Fund audit of the current volatile financial markets and the outcome of the McCloud judgement. Peter Barber indicated a disclosure in the accounts could be necessary. The size of the Pension Fund liability depended on how assumptions were determined particularly how level 3 investments were valued and the associated risks. Michael Hudson added that there would be a briefing note on the McCloud judgement. Conversations were taking place with the Council's actuary to determine the Council's approach.

**RESOLVED** that the content of the external audit plans and the Informing the Audit Risk Assessment report be noted.

The Committee considered the Income Management report.

In the ensuing debate, the following points were raised:

- Michael Hudson commented that by obtaining payments from the top 20 debtors, the Council could reduce its total debt by 40%
- A member commented that it was reassuring that the vast majority of debt was associated with a limited number of debtors rather than being spread across a large cross-section of organisations
- Would the level of outstanding debt be reported regularly to this Committee? Michael Hudson responded that the outstanding debt was now regularly monitored by SLT and reported to Cabinet. He would liaise with the Chairman and Vice-Chairman of this Committee to determine the best way to report income management to the Committee
- Where particular companies had a poor payment record, would the Council consider refusing to authorise work without payment? Michael Hudson commented that this approach would be an option for consideration in certain circumstances
- It would be helpful for the Committee to see the progress made on obtaining payments on the top 20 debtors for the next meeting.

**545 Financial Resilience Index (Agenda item 9)**

**RESOLVED** that the Income Management report be noted.

The Committee considered the Financial Resilience Index report.

In the ensuing debate, the following points were raised:

- A member commented that it was difficult to understand how certain County Councils could justify maintaining a level of reserves as high as £60-90m. It was important to establish the most appropriate level of reserves to avoid the issues experienced by Northamptonshire County Council. Michael Hudson commented that it was clear from the limited level of reserves held by Northamptonshire County Council as to why they were issued with a Section 114 Notice. A number of Councils had big fluctuations in the level of reserves as a percentage of net revenue expenditure which he did not consider to be good practice. He highlighted North Yorkshire County Council as an example of good practice as their level of reserves rose slightly each year over a four year period. It was important when considering the level of reserves that council taxpayers were not overcharged. Jenni Morris added that the Council's long-term approach to the management of reserves would be evaluated as part of the controls assurance framework reviews
- Were all councils using the same criteria to determine what constituted a reserve? Michael Hudson responded that reserves were defined as either useable or earmarked. There was a degree of flexibility as to how councils could define earmarked reserves. Mark Sanders indicated that CIPFA had issued guidance on the definition of reserves and he was confident that the comparison data was accurate.

**RESOLVED** that the Financial Resilience Index report be noted.

**546 Statutory Accounts 2019/20 Progress and Accounting**

The Committee considered the Statutory Accounts 2019/20 Progress and Accounting Policies.

Mark Sanders confirmed that the preparation of the 2019/20 Accounts was on course for completion in line with agreed timescales.

**Policies  
(Agenda item  
10)**

**RESOLVED:** that

- a) the work in preparation for the 2019/20 Statutory Accounts be noted; and
- b) the changes to the accounting policies for 2019/20 be approved.

**547 Corporate Risk  
Report (Agenda  
item 11)**

The Committee considered the Corporate Risk Report.

Rob Morris, Management Information, Analytics and Research Manager introduced the report and commented that the assessment of the risk associated with business continuity response to major event, related to the previous quarter, and as a result there was no reference to the impact of the coronavirus pandemic. The Council had established a Silver Command facility in response to this fast-evolving global pandemic.

In the ensuing debate, it was queried whether the Council should be moving to Gold Command at this stage and whether home-working should be enforced. Michael Hudson indicated that there would be more developments to report in response to this issue next week.

**RESOLVED:** that the latest update of the Corporate Risk Register including mitigating actions identified in respect of red risk be noted.

**548 Work  
Programme  
(Agenda item  
12)**

The Committee considered its work programme.

Michael Hudson commented that the Tony Redmond Review into the quality and effectiveness of the audit of local authorities was due to be released in the near future. He would provide the Committee with an oversight of the outcome of the Review because of the potential impact on the audit function. He anticipated that it would be available for the October meeting but would bring it to the July meeting if possible.

**RESOLVED** that the work programme be noted subject to the addition of a report to a future meeting on the outcome of the Tony Redmond Review into the quality and effectiveness of the audit of local authorities.

The meeting ended at 11.50am.

Chairman .....