

## Audit and Governance Committee

### Thursday, 30 July 2020, Online Only - 10.00 am

#### Present:

#### Minutes

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

#### Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 13 March 2020 (previously circulated).

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

An apology was received from Mr R W Banks.

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

Mr N Desmond declared an interest in Agenda item 5 as his wife is a teacher at Finstall First School, Bromsgrove.

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

None.

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

**RESOLVED** that the Minutes of the meeting held on 13 March 2020 be confirmed as a correct record and signed by the Chairman.

**553 2019/20 Internal  
Audit Final  
Report (Agenda  
item 5)**

The Committee considered the 2019/20 Internal Audit Final Report.

In the ensuing debate, the following points were made:

- Jenni Morris, Chief Internal Auditor introduced the report and commented that an overall opinion of Moderate Assurance had been given for the Council's control environment. This assessment had been possible because a majority of the audit work had been completed before the Covid 19 pandemic. In relation to Liberata, three audits had now been completed, all of which had good

classifications which gave assurance for payroll, accounts payable and accounts receivable

- Concern was expressed about the approach undertaken to deal with management inconsistencies as set out in the Executive Summary. Jenni Morris commented that although policies and procedures were in place, their application varied across the Council. This was an issue that had been raised with the Strategic Leadership Team. It tended to be an issue with the more remote teams who were either unaware or did not think that the policies applied to them. The audit team worked with policy developers to ensure policies were up to date, did not contradict each other and thereby became ambiguous and were regularly monitored
- It was queried why the status of certain audits had been changed to deferred or removed. Jenni Morris responded that in relation to accounts payable/receivable, the Council was moving to a healthy organisation framework approach. A Financial Management Audit was consequently put in place which covered this work as well as procurement and bank reconciliation. This approach to audit work allowed Internal Audit to provide a wider coverage across a number of issues
- In response to a query about the timeframe for an outstanding payroll audit action, Jenni Morris explained that this action related to the payment of safeguarding allowances, ensuring that the policies were up to date and payments made correctly. Although this was a relatively old audit, an emphasis had been maintained on ensuring that the work was completed by HR before it could be signed off
- The Chairman was satisfied with the report and considered that Internal Audit was moving in the right direction
- In response to a query about Business Continuity Plans for critical services and in particular the impact of the Covid 19 pandemic, Jenni Morris commented that although the Business Continuity Plans were not robust or well-tested, the Council did have good management processes in place with for example the Gold, Silver and Bronze command settings. A governance audit had been instigated to look at business continuity planning, in particular to ensure that these plans were robust and agile, regularly updated and able to handle any eventuality.

**554 Statutory Accounts and Pension Fund 2019/20 - External Audit Progress Report (Agenda item 6)**

**RESOLVED that the Internal Audit 2019/20 Final Report and assurance level be noted.**

The Committee considered the Statutory Accounts and Pension Fund 2019/20 - External Audit Progress Report.

Helen Lillington from Grant Thornton, the Council's external auditor introduced the report and made the following points:

- As a result of the Covid 19 pandemic, the timetable for the completion of the Accounts had been pushed back to the end of November. Both the Grant Thornton and Council's Finance teams had worked well together and largely stuck to the original timetable albeit a couple of weeks later than planned which was a huge effort in the circumstances. The bulk of the field work had now been completed
- Property, Plant and Equipment had been a major focus of the work and where the most accounting errors had been identified albeit none were material so there would need to be an adjustment in the accounting notes
- Undertaking the audit of the accounts remotely had been a particular challenge with significantly increased the number of queries generated through emails and other means
- The bulk of the Pension Fund audit work had also been completed. There were issues around the right level of assurance to be given to the Fund bearing in mind uncertainties as a result of the Covid 19 pandemic and its impact on the valuation of the Fund at year-end.

In the ensuing debate, the following points were raised:

- The Chairman and members of the Committee expressed their gratitude to Grant Thornton and the Council's Finance Team for their efforts in ensuring that the Accounts were kept as near as possible to the original timescale despite the impact of the pandemic
- The percentage of audit work that had been completed remotely was queried and whether remote working practices would be adopted in the future and consequently any potential cost savings in terms of the annual fee. Helen Lillington anticipated that the audit work would be

completed 100% remotely using the available technology, particularly screen-sharing. This was not the most efficient way of undertaking the work and although travelling time had been saved, overall the audit process was taking longer to complete. The main issue had been satisfying the Regulator that the documents received electronically had not been manipulated which added another layer of work. A lot of the work was better achieved face-to-face although she did anticipate that a blended approach would be used in the future and that certain aspects of the audit work would continue to be undertaken remotely. Therefore, she did not consider that there would be a reduction in the fee. There would however be a change to the Value for Money conclusion which would have an impact on the fee

- It was important for the Council to understand the reason for additional fee for the work undertaken by Grant Thornton's external property valuers. Were their valuers operating remotely, what approach to valuation were they taking and did it fit in with the requirements of the Regulator? Helen Lillington explained that the Council's valuer had completed their valuations pre-pandemic therefore they had been undertaken in the normal way. Grant Thornton's external valuer's work focused on the instructions that the Council had given to its valuer and whether its report contained the right information and benchmark indices. The pandemic had had an impact and the Council had made an assessment of a material uncertainty on its valuation report to reflect the uncertainty at the time. This approach was consistent with other councils.

**RESOLVED** that the contents of the External Auditor's Progress Report with regard to progress made towards the Worcestershire County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20 be noted.

**555 Draft Annual Governance Statement 2019/20 (Agenda item 7)**

The Committee considered the draft Annual Governance Statement 2019/20.

In the ensuing debate, Mark Sanders, the Chief Accountant introduced the report and explained that the final version of the Statement would be submitted for approval at the next Committee meeting.

**556 Draft Annual  
Statutory  
Financial  
Statements for  
the year ended  
31 March 2020  
(Agenda item 8)**

**RESOLVED that the draft Annual Governance Statement 2019/20 be noted.**

The Committee considered the draft Annual Statutory Financial Statements for the year ended 31 March 2020.

Mark Sanders, the Chief Accountant introduced the report and made the following comments:

- At this stage, the accounts were unaudited albeit with the bulk of the work completed. It was intended to bring the audited accounts to the next Committee meeting
- He was very proud of the work of his team in reaching this advanced position, bearing in mind the changes to working practices and procedures as a result of the impact of the pandemic with new group accounting procedures as well as staff changes. The team had worked very well with the team from Grant Thornton
- The Council would be meeting all the statutory deadlines for the publication of the accounts
- The management accounts showed an overspend of £300k against a budget of £330m. The Council was in a good position with £76m in earmarked reserves and £12.2m in general balances. In the earmarked reserves there was a deficit reserve for the Dedicated Schools Grant of £6.3m which would be corrected over the next 2/3 years. There was no material impact on asset valuation as a result of the pandemic
- The net assets of the Pension Fund Accounts had decreased by £160m to £2.6b with an annual surplus was £9.2m
- Work continued on the Value for Money conclusion and dependent on circumstances he hoped to be able to report the outcome to the next meeting
- The impact of the pandemic on the accounts in the last financial year had only been 500k due to its timing close to the end of the financial year and this had been fully funded by Government grants
- There had been no material impact as a result of the EU exit process.

In the ensuing debate, the following points were raised:

- The healthy state of the Council's reserves was welcomed but it was queried how these reserves had been invested. Mark Sanders responded that

the reserves were part of the cash treasury management investments and there were tight restrictions on how this money could be invested to ensure that the funds were secure. Investment risk was kept minimal and exposure to equities was not permitted

- In response to a query about the impact of the pandemic on future financial planning, Michael Hudson commented that a going concern audit paper had been completed for the external auditor, setting out the Council's understanding of its financial position and this document would be kept under review. The Council had also completed a monthly "Delta" return form which was submitted to the Government. As part of that process, the Council was assessing projected costs. With the aid of Government grants, it was anticipated that the Council's cash flow should be sufficient for the remainder of the financial year. Revisions to the Medium Term Financial Plan were expected. At this stage, the finances were manageable but there would be impacts in future years. 65% of the county was covered by rate relief for this year which had helped the Council's finances but there would be risks associated with business rates income for the following year. The Government would be undertaking a spending review in the autumn and an announcement on the business rates position was anticipated which it hoped would give some clarity going forward
- Despite a certain negative view taken in some quarters about local government finances, this Council was in a good position and it was a credit to all concerned given the financial position three years ago and recent unexpected events
- The Chairman commented that the transition in the Council's finances in recent years had been significant and he expressed his gratitude to the Chief Financial Officer and his team for their work. Every year the Council had met the challenges to make savings and efficiencies. It was testament to the Council's internal processes that the Council only had an overspend of £300k on a budget of £330m last year and had maintained a consistent level of reserves of around £12m.

**RESOLVED that the draft Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2020, be noted.**

**557 Internal Audit Progress Report and Anti-Fraud and Corruption Strategy (Agenda item 9)**

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

Jenni Morris, Chief Internal Auditor introduced the report and made the following comments:

- The change to the three year rolling programme of audits, based on the standards and controls framework had enabled internal audit to use the first few months of the financial year to evaluate and build those frameworks. In addition, a risk assessment had been undertaken of every school to enable closer and more proactive engagement with schools
- Outstanding audit work had been completed, new audits started and advisory work undertaken, all undertaken remotely
- There would be a wide-ranging audit of the Council's governance arrangements, particularly around decision-making in a remote working environment together with the Council's approach going forward
- Business continuity plans were being reviewed to ensure that moving forward, they could better support the business. Recovery plans were being reviewed together with the financial response so that financial planning reflected the current position and addressed the situation going forward
- Two members of the audit team would be leaving the Council towards the end of this year and various options to address this staffing shortfall were being considered.

In the ensuing debate, the following points were raised:

- Would case studies be used as a means of explaining what constituted fraud to staff? Jenni Morris commented that there was a balance between the work undertaken to prevent fraud and work undertaken to investigate fraud. In the past a lot of the work had been reactive and investigative in nature. She was keen to undertake more preventive work and education was a key element so people understood what constituted fraud. It was important to have clear guidance, focused on particular areas and case studies would be useful in this respect
- The Chairman commented that the report was encouraging and a tremendous amount of work had been undertaken. He welcomed the change of emphasis and culture shift of the audit process

**558 Risk Management Update (Agenda item 10)**

to a more forward-looking approach, engaging all levels of senior management. He also noted that the number of overdue audits/actions had considerably reduced.

**RESOLVED: that**

- a) **The Internal Audit progress report be noted; and**
- b) **The Anti-Fraud and Corruption Strategy be approved.**

The Committee considered the Risk Management Update.

Jenni Morris, Chief Internal Auditor introduced the report and made the following comments:

- Rachal Hallam had been appointed to the Risk and Assurance Manager position
- A crisis management approach had had to be adopted and as a result, the monitoring of corporate risks had been suspended in order to focus on Covid 19 risks. The risks associated with Covid 19 were very detailed, wide-ranging, time-consuming and constantly evolving
- Further to the report, three additional red risks associated with Covid 19 had been identified which related to transport, mainly around bus services, school transport and issues associated with schools reopening in September. The other red risk related to the availability of care home beds. As a result, the Corporate Risk Strategy was also being reviewed so the organisation understood what constituted a risk and how it related to the Council's ability to function. Training and education plans would be developed accordingly.

In the ensuing debate, the following point was raised:

- The ability of the Council to successfully change its IT system during the current difficult circumstances was a major achievement.

**RESOLVED that the Risk Management update be noted.**

**559 Income and Debt Management update (Agenda item 11)**

The Committee considered the Income and Debt Management update.

In the ensuing debate, the following points were raised:

- Michael Hudson, the Chief Financial Officer expressed his gratitude for the efforts the Finance and audit teams. An early decision had been taken to focus the Income and Debt Management team’s work on adult care packages rather than income management and therefore the ability to fight debt during this period had been restricted. The bad debts provision had been increased but it was hoped to recoup some of this lost income from Government funding although a certain amount was expected to be written off. Recruitment to the team and centralisation of processes had commenced. Senior posts would be filled in the autumn. The Committee would receive updates accordingly
- The Chairman noted that work in the key area of income management had recommenced and welcomed the receipt of regular updates.

**RESOLVED that the latest update on Income and Debt Management be noted and a further update be reported to the next meeting.**

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

The Committee considered its work programme.

Simon Lewis, Committee Officer indicated that a training session on the Control Management Framework was scheduled to be held prior to the next Committee meeting. However, at this stage it was unclear whether the next Committee meeting would be held remotely and whether Zoom video conferencing was the most appropriate means of providing that training. Therefore, a decision would be made in early September as to whether the training would proceed and members would be informed accordingly.

**RESOLVED that the work programme be noted.**

The meeting ended at 11.20am.

Chairman .....