

## Audit and Governance Committee

### Friday, 2 October 2020, Online only - 10.30 am

		<b>Minutes</b>
<b>Present:</b>		Mr N Desmond (Chairman), Dr A J Hopkins (for items 7 - 12), Mr P Middlebrough, Mr C Rogers, Mrs E B Tucker and Mrs R Vale
<b>Available papers</b>		The members had before them:  A. The Agenda papers (previously circulated); and  B. The Minutes of the meeting held on 30 July 2020 (previously circulated).
<b>561</b>	<b>Apologies and Named Substitutes (Agenda item 1)</b>	Apologies were received from Mr R W Banks and Mr L C R Mallett.
<b>562</b>	<b>Declarations of Interest (Agenda item 2)</b>	None.
<b>563</b>	<b>Public Participation (Agenda item 3)</b>	None.
<b>564</b>	<b>Confirmation of Minutes (Agenda item 4)</b>	<b>RESOLVED</b> that the minutes of the meeting held on 30 July 2020 be confirmed as a correct record and signed by the Chairman.
<b>565</b>	<b>Local Audit Reviews and Guidance Note (Agenda item 5)</b>	The Committee considered the Local Audit Reviews and Guidance Note.  Michael Hudson, the Chief Financial Officer introduced the report and made the following points: <ul style="list-style-type: none"><li>• The Redmond review into the effectiveness of local audit and the transparency of local authority financial reporting was welcomed and was long overdue</li><li>• The Redmond Review was a national report which did not necessarily reflect local practices, arrangements and skills sets. He considered that</li></ul>

the members of this Committee had a strong cross-section of knowledge and skills. The recommendations in relation to the role of the Committee and governance arrangements were therefore considered unnecessary

- In relation to Section 6 – Financial Resilience, the added value proposals in the report in relation to Value for Money Audits were welcomed albeit recognising an anticipated potential for a fee increase by the external auditor for the work involved
- Section 7 – Financial Reporting. Whilst recognising and welcoming the need to review the complexity of the Statement of Accounts and the general capacity issues within audit, the deadline for the publication of the Accounts should not be extended until the 30 September. It would be preferable to ensure that the Accounts were published as early as possible to allow officers more time to focus on the budget preparation.

Peter Barber, Key Audit Partner from Grant Thornton, the Council's external auditor made the following points:

- The findings of the review were broadly welcomed, particularly in relation to the price versus quality recommendations. The fee for external audit work had reduced considerably over a number of years to the point where it was impacting on staff recruitment and retention
- A good professional working relationship had been maintained throughout the process between the Council's finance team and the external audit team which had allowed robust challenge
- The proposals for a more tailored and focussed approach to the Value for Money audit would add value to the process and were welcomed
- The current regulations restricted the ability of the external auditor to gain assurance from the opinion of third parties
- The extension of the deadline for the publication of the Statement of Accounts was welcomed because it would enable external audit to spend more time ensuring that their work was completed to the necessary high quality. It did not necessarily mean that each council would end up with their accounts signed off at the last minute.

In the ensuing debate, the following points were raised:

- The report highlighted key failings in the audit

process, some of which were systemic

- It was clear that the outcome of the reduction in the external audit fee had proved unsatisfactory for everyone concerned
- The current system was fragmented and the creation of a new regulatory body would seem sensible
- The Chairman recognised the good working relationship between the Council's finance team and the external audit team
- The question was whether the existing external auditing process added value or too much time was dedicated to in-depth technical issues. Peter Barber recognised the issues identified in the report in terms of the technical nature of reporting. For example, the time spent auditing Property, Plant and Equipment (PPE) had grown exponentially, without an acknowledgement that the level of materiality in this area was less relevant for a council than for a commercial business. This level of detail was driven by regulations and on this basis the external auditor was required to sign off the accounts as martially accurate
- The report highlighted the gap between councils' perception of what a Value for Money audit should amount to and the very narrow remit of the existing arrangements
- The report was critical of elected members and their ability to challenge the audit process. However, this Committee had demonstrated the ability to provide challenge during a difficult period and that individual members had the requisite skills to fulfil their role
- The appointment of an independent member to sit on the Committee would not be an issue
- The attendance of the Section 151 Officer at the Committee was an appropriate and sufficient level of officer involvement. It was difficult to see how the external auditor reporting directly to Council would add value to the process. A contrary view was expressed that such a reporting mechanism would enable all members of the Council to hear the views of both the external auditor as well as the Committee
- There was a danger that the appointment of an independent member would undermine the democratic process. An independent member was appointed and therefore not elected. It was important to understand the basis for making such an appointment whether for technical expertise or

any other reason. The attendance and input of independent members on other committees had been erratic. The Chairman added that the independent member could provide a further level of accountability and challenge but he accepted that it was not the panacea that would radically improve the system

- It seemed unnecessary for the external auditor to report their findings directly to the Council. If necessary, the independent member could be tasked with that role. There was a danger that the role of the Audit and Governance Committee would be undermined. In addition, the debate could become political and amendments made to the Accounts with little understanding of the subject matter
- The proposal for a summarised statement of accounts was welcomed because at present the Accounts were not particularly user-friendly and technical
- There was a strong argument to push back the deadline for the publication of the Statement of Accounts but perhaps a compromise could be reached whereby every effort be made at a local level to sign them off as early as possible
- In extending the timeframe for the publication of the Accounts, it was important to avoid confusion and keep the Statement of the Accounts entirely separate from the budget-setting process. Michael Hudson added that the sooner the Council had certainty on the Statement of Accounts, the sooner work could commence on the following year's budget
- Committees were already able to report to Council and this Committee should not be treated any different. It would place the external auditor in a difficult position, potentially being exposed to political cross-examination at Council
- Councillors were in effect independent members voted into office by the electorate. An independent member would not add anything to the process
- Councils tended to have better organisational structures than many commercial enterprises. Therefore, added value could be achieved by placing a greater emphasis on waste, inefficiency and fraud in the Value for Money audit
- Michael Hudson indicated that following the Redmond Review report, the regulatory process would be concluded and it was likely that any changes to the Accounts process would be picked up after May 2021

- Peter Barber commented that the external auditor was limited by regulation in terms of what could be examined under the VFM audit. The regulations would be subject to review and it was hoped that more freedom would be granted in a local context and in particular an emphasis on economy, efficiency and effectiveness. In future the external auditor would present an Annual Auditor Report which would be reported to the appropriate council committee
- Michael Hudson suggested that a training session be held for members prior to the next Committee meeting in December on the new Value for Money approach.

**RESOLVED** that the report and appendices be noted and the following observations on the initial review of the Sir Tony Redmond Independent Review of Local Audit be brought to Council's attention:

- The findings of the review were broadly welcomed and accepted, especially the creation of a new body, the Office of Local Audit Regulation to manage, oversee and regulate local audit;
- The Committee were open-minded about the appointment of an independent member but had reservations about what value the role could add to the work of the Committee;
- The Committee did not feel that it was appropriate for the External Auditor to present an Annual Audit Report to the first Full Council after the 30 September deadline for the publication of the Annual Statutory Financial Statement as it undermined the important role of the Audit and Governance Committee; and
- The proposed extension to the deadline for the publication of the Annual Statutory Financial Statement up to the 30 September each year was welcomed but it was considered that local practices should be recognised which might be better suited to publication by the existing deadline of 31 July.

**566 Internal Audit Progress Report (Agenda**

The Committee considered the Internal Audit Progress Report.

**item 6)**

In the ensuing debate, the following points were raised:

- Were agency staff being brought in to support Internal Audit function? Jenni Morris, Chief Internal Auditor responded that agency staff were being considered for general audit work but the recruitment of temporary internal or external specialist support was being considered for task and finish groups
- Concern was expressed about the impact of the lack of staff experience would have on the work of Internal Audit and the actions taken to address this staffing shortfall were queried. Jenni Morris explained that a robust interview process had been introduced for agency staff setting out a clear expectation of the necessary skills set and understanding of the outputs required. In addition, these placements would be on a shorter term than usual. The process would be carefully monitored. Staffing levels were a concern and she constantly liaised with the Chief Financial Officer and would keep the Committee informed as a matter of course
- It was vitally important that Internal Audit had the necessary resources to input into the Place Partnership contract exit arrangements to ensure that income streams were not lost. Jenni Morris acknowledged the importance of this piece of work and would personally oversee it
- It was vital not to lose the improvements made in Internal Audit as a result of these staffing issues. It was also represented an opportunity to shape the team to suit the organisation's aims
- It was difficult to recruit staff with the requisite skills on a long-term contracts and a particular challenge for short term recruitment. Jenni Morris commented that a recruitment process for permanent staff was in progress. Agency and short-term staff were only seen as an interim solution. The restructure of financial services would provide an opportunity for posts to be filled internally, otherwise external staff would be considered. If the restructure was completed on schedule then staff could be appointed by January 2021. If external staff were required then that timescale would be pushed back.

**RESOLVED that:**

- a) The Internal Audit progress report be noted; and**

**567 Statutory accounts and Pension Fund 2019/20 - External Audit Findings Report (Agenda item 7)**

**b) The Internal Audit work programme for quarter 3 be approved.**

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

Peter Barber, Key Audit Partner from Grant Thornton, the Council's external auditor introduced the report and made the following points:

- The deadline for the publication of the accounts had been extended until 30 November and it was pleasing that both sets of accounts were near to completion
- The process had been challenging this year due to the impact of Covid 19, staff working remotely and the need to undertake a more rigorous examination of the information provided by the Council. He thanked the Council's finance team for their co-operation and support through the process
- The materiality of the Council's Accounts had been set at £11.6m. No material errors had been found in the Accounts to date
- There were a small number of outstanding issues which related to the Energy from Waste plant, the McCloud and Goodwin developments. Unfortunately, because the Manager at Grant Thornton had been unavailable to attend this meeting due to ill-health, he was unable to give an assurance on these elements of the Accounts. However, he did not anticipate any problems and planned to issue an unqualified opinion
- The Council had appropriate arrangements to produce accurate and timely Accounts and working arrangements had improved on the previous year
- There would be an emphasis of matter on the land and buildings element of Property, Plant and Equipment (PPE). This was not a qualification of opinion but a recognition that there was greater uncertainty about the materiality of this element of the Accounts. Responses by the Council to queries about PPE had improved but there remained scope for further improvement
- The Value for Money audit had particularly focused on the Sustainable Resource Deployment element. Despite the challenging environment, it was proposed to issue an unqualified opinion on this element of the Accounts. There was

confidence that the Council's budget setting arrangements were effective. The Council's reserves and balances were adequate

- No material errors had been identified in the Pension Fund Accounts. The impact of Covid 19 and the volatility of the markets had been reflected in a reduction in the required level of materiality for the Pension Fund Accounts.

In the ensuing debate, the following points were raised:

- The Chairman recognised the work of all parties involved in getting the Accounts to the point of sign off well ahead of schedule, recognising the improved paperwork and communication. He acknowledged that there was an added level of detail and technical challenge to the work undertaken this year but queried the need for this extra level of examination
- Had the additional element of external expert advice/assurance on PPE sought by Grant Thornton added any value to the auditing process? Peter Barber responded that the engagement of an external expert had emerged from the regulator querying whether Grant Thornton had the necessary technical expertise to challenge the Council's expert's valuation of land and building assets. It provided the external auditor with the ability to provide expert challenge to aspects of PPE and gave an element of assurance albeit at a charge to the Council. He would envisage this continuing but at the same time learning from previous experience to refine the process. Michael Hudson struggled to see the added value of this additional advice but welcomed that the process would continue to be reviewed and awaited the findings of the Pension Regulator.

**RESOLVED that the Grant Thornton Audit Findings Report for the Worcestershire County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20 be noted.**

The Committee considered the Annual Governance Statement 2019/20.

In the ensuing debate, Mark Sanders, the Chief Accountant explained that as it was not possible to sign off the Accounts at this meeting due to an illness within

**568 Annual Governance Statement 2019/20 (Agenda item 8)**

**569 Annual Statutory Financial Statements for the year ended 31 March 2020 (Agenda item 9)**

the Grant Thornton team, it was also not possible to approve the Annual Governance Statement. He therefore suggested that subject to the Statement of Accounts being signed off by the Chairman in consultation with the Vice-Chairman, the Chief Financial Officer be authorised to arrange for the Annual Governance Statement 2019/20 to be formally signed by the Chief Executive and Leader of the Council. If this was not possible then consideration would be deferred to the next Committee meeting.

**RESOLVED that:**

- a) Subject to the approval of the Worcestershire County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20 by the Chairman in consultation with the Vice-Chairman, the Chief Financial Officer be authorised to arrange for the Annual Governance Statement 2019/20 to be formally signed by the Chief Executive and Leader of the Council; and**
- b) If a) above cannot be followed then consideration of the Annual Governance Statement 2019/20 be deferred to a special meeting of the Committee to be held prior to 30 November 2020.**

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

In the ensuing debate, the following points were made:

- Mark Sanders explained that the Statements of Accounts was predominately unchanged from the draft version considered at the July meeting albeit with some non-material adjustments. All the findings for both sets of accounts had been accepted and implemented. He thanked both teams for their work to get to this point. There had been a particular deep dive into issues around Property, Plant and Equipment which had increased the workload of the team and led to some presentational changes to the Accounts
- Michael Hudson explained that due to the exceptional circumstances surrounding the ill health of a member of the Grant Thornton team, the Statement of Accounts could not be signed off at this meeting. He therefore proposed that the

Chairman in consultation with the Vice-Chairman be authorised to sign off the Accounts assuming there are no material issues or disputed amendments remaining as advised by Grant Thornton. If that was not the case, a special meeting of the Committee would be convened. He was very hopeful that the delegation would be sufficient in the circumstances. Members of the Committee would be kept fully informed of progress.

**RESOLVED that:**

- a) **The Chief Financial Officer provides a full update to the Committee by the end of October on Grant Thornton's progress on their final sign off and any changes, if any, and the proposed next steps. It is assumed that if there are no material changes or issues arising then the Committee recognises the technical reasons for not being able to sign off the accounts at this meeting and therefore the Chairman in consultation with the Vice-Chairman of the Committee be authorised to approve the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2020, assuming there are no material issues or disputed amendments remaining as advised by Grant Thornton;**
- b) **If there are any material adjustments or disputed changes that differ from the Audit Findings Report discussed at today's meeting then a) above cannot be followed through and instead a special meeting of the Committee be convened before 30 November to sign off prior to the deadline; and**
- c) **Following approval by the Chairman in consultation with the Vice-Chairman and with prior notification of the Committee, the Chief Financial Officer be authorised to sign the Letters of Representation on behalf of the County Council.**

**570 Income Management (Agenda item 10)**

The Committee considered Income Management.

In the ensuing debate, the following points were made:

- Michael Hudson explained that in relation to Table 3 – Top 49 debtors, the total NHS debt stood at £3.5m however, £1.2m of that amount had been paid earlier in the week with the remaining

balance to be paid at the start of next week. The other public sector debts related mainly to other councils predominately concerned with child care placements/social care disputes. The PFI debt related to a dispute with a school which was currently at the mediation stage

- It was queried how it was possible that the NHS and other public sector bodies were unable to pay these debts, given that cash flow should not be an issue for them. Michael Hudson responded that in relation to the NHS debt, the reason put forward related to Covid 19 but this debt had now been resolved. In relation to other public sector bodies, there were disputes over the sums of money involved which had led to delays in settlement
- In relation to the debt disputes with other public sector bodies, was there a danger that this debt would not be recovered? Michael Hudson commented that there were various legal issues connected with these disputes. Three cases had been taken to court recently and the Council had won on each occasion. It was hoped that a further update could be provided on this particular debt at the next Committee meeting
- There were some large debts that had been allowed to increase over a long period of time
- Legal services had a very important role in debt recovery and therefore, it was important to engage them at an early stage. It was clear that the issue of debt recovery was taken seriously by this Council.

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

**571 Risk Management update (Agenda item 11)**

The Committee considered the Risk Management update.

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

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

The Committee considered the Forward Plan.

In the ensuing debate, it was agreed that a training session to explain the proposed changes to the Value for Money audit would be arranged prior to the next Committee meeting.

**RESOLVED** that the work programme be noted subject to a training session on the Value for Money

**audit being arranged prior to the meeting on 4  
December 2020.**

The meeting ended at 12.40pm.

Chairman .....