

Audit and Governance Committee

Friday, 4 December 2020, Online only - 10.30 am

		Minutes
Present:		Mr N Desmond (Chairman), Dr A J Hopkins, Dr C Hotham, Mr P Middlebrough, Mr C Rogers 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 2 October 2020 (previously circulated).
573	Apologies and Named Substitutes (Agenda item 1)	Apologies were received from Mr R W Banks and Mr L C R Mallett.
574	Declarations of Interest (Agenda item 2)	None.
575	Public Participation (Agenda item 3)	None.
576	Confirmation of Minutes (Agenda item 4)	RESOLVED that the Minutes of the meeting held on 2 October 2020 be confirmed as a correct record and signed by the Chairman.
577	Internal Audit Progress Report (Agenda item 5)	The Committee considered the Internal Audit Progress Report. In the ensuing debate, the following points were raised: <ul style="list-style-type: none">It was queried how the potentially fraudulent amendment of bank account details had been drawn to the attention of Internal Audit. Jenni Morris responded that Liberata had reported the issue to the Council. Internal Audit had conducted an initial investigation to ensure it was not a county council issue which it was not. Work was now underway with Liberata to resolve the issue.

This dialogue emphasised the constructive working relationship between Internal Audit and Liberata

- Jenni Morris indicated that two apprentices had been added to the Internal Audit team and an Audit and Compliance Manager had now been recruited
- The Chief Internal Auditor was thanked for her and her team's work through a challenging period. Jenni Morris acknowledged that it had been a challenging period but it had given the team an opportunity to look at different and more efficient ways of working
- The reduction in the number of outstanding audits and the improvement in the organisational cultural attitude to Internal Audit together with the positive response from senior management was welcomed.

RESOLVED: that

- a) progress to date be noted; and**
- b) the focus of the quarter 4 audit plan be approved.**

578 External Audit Progress Report and Sector Update (Agenda item 6)

The Committee considered the External Audit Progress Report and Sector Update.

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

- The County Council and Pension Fund Accounts had been signed off on 27 October 2020, five weeks ahead of the revised national deadline. Only 55% of Grant Thornton's local authority clients had met the deadline
- An unqualified Value for Money conclusion on the Accounts was issued on 27 October 2020
- The Pension Fund Annual Report and Consistency Statement had been issued on 23 November ahead of 1 December 2020 deadline
- The Whole of Government Accounts deadline was 4 December 2020. Work on this was substantially complete but there was a national technical issue in relation to the data collection tool. If the deadline was not achieved then the external auditor was required to write to the National Audit Office (NAO) to explain

- The teachers' pension return deadline was 7 December 2020. Although work on this was substantially complete, external audit resources had been diverted to other higher priorities and it was likely that the deadline would be missed
- An increased fee had been proposed at the planning stage to reflect the challenges associated with Property, Plant and Equipment, pension liabilities and the consolidation of Worcestershire Children First. However, as a result of the impact of Covid 19, a further additional fee was proposed of £13,750 and £6,000 for the Council and Pension Fund respectively. This was only a proportion of the total cost of the work undertaken by the external auditor. The Public Sector Audit Appointments (PSAA) would ultimately sanction any fee increase
- The NAO had finalised their guidance on the Value for Money (VFM) audit which included proposed changes to the VFM criteria. In addition, from 2021 onwards, an Auditor's Annual Report would be produced alongside the Statement of Accounts, instead of the External Audit Letter. The new procedures would be more detailed and subjective in nature which would be reflected in a possible increased fee.

In the ensuing debate, the following points were raised:

- There was reference in the report to a variation in the fee for the Pension Fund audit on the basis of "raising the bar" by the regulator. Did this indicate that the Pension Fund accounts were not to the same standards as the Council accounts? Peter Barber advised that work had been completed to the same standard in both sets of accounts
- Had the additional fee for the work associated with the PPE audit reached its zenith or would it be included in future external audit fees? Peter Barber commented that the cost of the work of the external expert, brought it to provide assurance to the external auditor on the Council's PPE valuation, accounted for the majority of the fee. Consideration would be given to whether the same level of assurance was necessary going forward based on any further observations from the regulator and the fee would be adjusted accordingly
- It was queried why it was necessary to make reference to local government reorganisation in the report. Peter Barber commented that the issue

was merely brought to the attention of the Council for information purposes

- Were the changes to the VFM audit being brought in for the benefit of enhancing the professional integrity of external auditor or to assist local residents/councillors or was it associated with “raising the bar” by the regulator? Peter Barber explained that the VFM audit was unique to local government and was determined by the NAO. The NAO had widely consulted and created a new criteria for the audit work. The feedback received indicated that the previous VFM audit work had been too high level with reporting by exception on a risk basis. The view emerged that the audit work should be more detailed and tailored to local circumstances, picking up best practice and highlighted strengths and weaknesses. He argued that the new criteria would benefit stakeholders and local residents
- It was difficult to understand/justify a nearly 50% increase in the fee for the external work. Should the Council consider retendering the external audit work to ensure that this fee was competitive? Peter Barber explained that PSAA undertook the tendering exercise for the appointment of an external auditor on behalf of the Council. This was a process opted into by the Council from 2017/18 for a 5 year period. Grant Thornton’s contract with PSAA included a scale fee but also a process for applying for additional fee variations to reflect any extra work necessary to meet any contractual responsibilities. The additional fees had to be explained/justified to the PSAA and could only be billed if subsequently approved. The fee increase for 2020/21 reflected the unique circumstances experienced during the pandemic
- Did the work necessary to finalise the accounts on time lead to the additional fee? Peter Barber indicated that a number of councils that had failed to meet the statutory deadline were subject to challenging issues which required detailed work which consequently increased the fee. The fees for this Council as a percentage were at the lower level. Mark Sanders added that the additional fee was subject to challenge by officers. In terms of next year’s audit, a lot of preparatory work would be undertaken in respect of the VFM audit which should minimise the work of the external auditor and consequently reduce the fee
- The Redmond Review highlighted a gradual reduction in external audit fees over a number of

years. There appeared to be a systematic failure with current system of determining fees and as a result, audit fees were being kept artificially low

- The additional external audit fee for the PPE valuation did not appear to provide value for money to the Council
- Would the uplifted fee of £105k be the standard charge for external audit work going forward and did this reflect the actuality of the work involved? Peter Barber responded that the PSAA were responsible for any amendment to the scale fee to reflect changes in the nature of an audited body. The PSAA were considering making such a change to reflect the additional work associated with the VFM audit. There was a lead in time for any proposed change and therefore the change would not be reflected in the 2021/22 scale fee. External auditors were increasingly involved in more complicated audit work and it was likely that there would be further increases in the future. The overall baseline for external audit fees was very low
- How did the uplift in fee compare with other councils of a similar size? Peter Barber commented that this Council's fee increase percentage was at the lower end compared to other councils of a similar size
- The current VFM audit was very light touch and it was hoped that the narrative and language of the revised VFM audit would be easier to understand and be more transparent
- In response to a comment about the potential negative public perception of the proposed fee increase in the current economic environment, Peter Barber stated that the increase was only a proportion of the cost of the additional work undertaken by Grant Thornton. However, he noted this concern which had been raised at a number of council meetings he had attended within Grant Thornton's portfolio
- Did Grant Thornton provide billing details of the work undertaken so that the Council could understand and challenge the fee? Peter Barber responded that this information was only provided to PSAA. It was not considered cost-effective to provide it to each individual council. Ultimately a council could refuse to pay the fee which would lead to a three-way conversation between the parties. The aim was to avoid this scenario by clearly communicating with the council from the outset about the rationale for potential additional

fees

- Was it possible to provide details of the discount to the fee that Grant Thornton had agreed? Peter Barber explained that a breakdown of the charges for additional work was only provided to PSAA.

RESOLVED that the content of the External Audit Progress Report and Sector Update as set out in the Appendix to the report be noted.

579 **Income
Management
(Agenda item 7)**

The Committee considered the Income Management Report.

In the ensuing debate, the following points were raised:

- Mark Sanders commented that since the report had been written, the total debt of £14.8m for the top 20 debtors had reduced to £11.9m. He also anticipated that this figure would reduce further to £5m as reimbursements for social care costs were expected to be received from the NHS as well as the receipt of a payment from a council. An agreement had been reached for additional legal resources to help collect more complicated debts that might lead to legal action
- In response to query, Mark Sanders undertook to arrange for an officer from legal services to attend the Committee meeting in March 2021 to provide details of legal aspects of debt collection processes. The Income and Debt Manager would also attend the meeting
- Why did the Council continue to report long-term debts and were these debts recoverable? Mark Sanders responded that there was a bad debt provision in the accounts that looked at collectability of debts. There would be a cost/benefit analysis of all debt, particularly long-term debt to determine whether it was possible to collect it or write it off
- Did the external auditor challenge the Council's approach to managing long-term debt? Peter Barber commented that the collectability of debts was reviewed in the Council's accounts. The Council's bad debt provision was examined to ensure that it was prudent and not over-optimistic/pessimistic. The external auditor would check that the debts were correct, that there was provision set aside for non-collection which was reasonably based, and whether there was a policy in place

- The additional support in legal services to help collect outstanding debt was welcomed
- It was important to stop debt escalating. As soon as a debt was over a month old, there should be challenge from the top of the organisation. Mark Sanders indicated that the role of the Income and Debt Manager was to work with operational managers to ascertain the necessary debt information and work with the debtor where appropriate. There were very few debts that dated back before 2010/11 and these were small amounts. Jenni Morris added that she would be liaising with the Income and Debt Manager to analyse whether the right debts were being raised in the first place and whether those debts could be paid up-front or in instalments
- How much of the total debt was being paid by instalments? Mark Sanders indicated that the total amount of debt being paid by instalments was £2.54m.
- Mark Sanders undertook to provide an exempt non-anonymised version of Table 4 in the report to the Committee meeting in March 2021.

RESOLVED that the Income Management report be noted.

580 Risk Management Update (Agenda item 8)

The Committee considered the Risk Management Update.

In the ensuing debate, the following points were raised:

- The Council was facing unprecedented economic pressures and the more proactive approach to risk management would place the Council in a better position to manage risk
- The monitoring of risks and the work with partners organisations was an important part of the revised approach to risk management. In particular, it would be helpful to know details of Herefordshire Council's risks associated with its waste disposal and collection service because of the potential impact on the Energy from Waste plant at Hartlebury. Jenni Morris responded that the appointment of a Risk and Assurance Manager enabled the Council to be more proactive in addressing risk and liaising with operational managers who managed those risks, whether internally or externally
- Jenni Morris explained that the resourcing of a

dedicated officer post would make a big difference to improving the Council's approach to risk management.

RESOLVED that the Risk Management update be noted.

581 Statutory Accounts Update (Agenda item 9)

The Committee considered the Statutory Accounts Update.

In the ensuing debate, the following point was raised:

- Was the appointment of an asset valuer a separate arrangement to the Council's relationship with Place Partnership? Mark Sanders advised the Council was seeking an external appointment and a tendering exercise would be undertaken to find an external valuer.

RESOLVED that the Statutory Accounts update report be noted.

582 Work Programme (Agenda item 10)

The Committee considered the Forward Plan.

In the ensuing debate, it was noted that the External Audit Letter would be reported to the March 2021 Committee meeting.

RESOLVED that the work programme be noted.

The meeting ended at 12.30pm.

Chairman