

Audit and Governance Committee

Friday, 12 March 2021, Online - 10.00 am

		Minutes
Present:		Mr N Desmond (Chairman), Dr A J Hopkins, Mr L C R Mallett, 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 4 December 2020 (previously circulated).
583	Apologies and Named Substitutes (Agenda item 1)	Apologies were received from Mr R W Banks and Dr C Hotham.
584	Declarations of Interest (Agenda item 2)	None.
585	Public Participation (Agenda item 3)	None.
586	Confirmation of Minutes (Agenda item 4)	RESOLVED that the Minutes of the meeting held on 4 December 2020 be confirmed as a correct record and signed by the Chairman.
587	Internal Audit Progress Report (Agenda item 5)	The Committee considered the Internal Audit Progress Report. In the ensuing debate, the following points were made: <ul style="list-style-type: none">• A high number of the recorded outstanding audit actions related to schools. Was this a growing trend and if so, what actions could be taken to address this issue? Jenni Morris, the Chief Internal Auditor responded that the number of audit actions associated with schools had previously been lower as less audits had been undertaken. However, individual school audits had

588 Internal Audit Plan 2020/21 to 2022/23 - 2021/22 Focus (Agenda item 6)

now become a particular area of focus for audit work and it was intended to visit all schools in due course. Furthermore, there had been additional work with schools where covid-related issues had been identified. A number of schools had been impacted by covid-related staff absences and changes in policy. She did not consider that the number of audit actions in relation to schools was a cause for concern

- In response to a query, Jenni Morris explained that audit action topic “Approval of Development” related to any approvals granted by the Council for major developments eg roadworks, housing developments. There had been significant changes of policy and management in this area. Internal Audit needed to determine the relevance of the audit recommendations to the associated actions given the significant service changes that had taken place since the audit work had been commissioned and therefore whether the service area needed to be re-audited
- In response to a query, Jenni Morris undertook to review school audit processes to include a reminder to schools to consult their governing body when an audit was underway.

RESOLVED that the internal audit progress to date be noted.

The Committee considered the Internal Audit Plan 2020/21 to 2022/23 - 2021/22 Focus.

In the ensuing debate, the following points were made:

- Environmental, Social and Governance (ESG) audit work was very complicated and needed to be addressed through a structural rather than anecdotal approach. The ESG audit report due to be considered by the Pensions Committee was a useful point of reference. Jenni Morris commented that this report would be incorporated in the work programme. Clear lines of enquiry and an evidence-based work programme were key areas for the ESG audit work
- It was important to continue to prioritise Internal Audit and not to lose the progress that had been made to date to improve processes as a result of the impact of covid. Jenni Morris responded that an open dialogue had been maintained between Internal Audit officers and the Council’s Senior Management Team (SLT) during the pandemic

which had provided reassurance about the continued relevance and importance of Internal Audit to the Council. Internal Audit now reported to the Chief Officer Group (COG) and the SLT on a quarterly basis. At the start of each quarter, COG would be provided with a list of proposed audits and their terms of reference.

RESOLVED that the Internal Audit Plan focus for 2021/22 be approved.

589 External Auditor - Annual Audit Letter 2019/20 and 202/21 Progress Report and Sector Update (Agenda item 7)

The Committee considered the External Auditor - Annual Audit Letter 2019/20 and 202/21 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:

Annual Audit Letter

- The Whole of Government Accounts had been completed on 1 February 2021
- The format and wording of the Annual Audit Letter had been changed for the benefit of stakeholders. The Council was encouraged to publish it on its web site.

Audit Progress Report and Sector Update

- In relation to certification work, the teachers' pension fund return had been signed off on 9 February which brought the 2019/20 audit to a close
- The 2020/21 Audit Plan for the Council and the Pension Fund had not yet been issued. 2019/20 Audit work was ongoing for a number of other councils and external audit resources had been directed towards the completion of those audits. In addition, there had been a complication in terms of ethical standards of the audit work with a member of external auditor's audit team, who had worked on this Council's accounts, joining the Council's Internal Audit team next month. To allay concerns about independence, the external auditor had received an assurance from the Chief Financial Officer (CFO) that that particular officer would not be involved in work associated with the 2020/21 Accounts. In addition, the external auditor had put in place a series of safeguards in relation to access to files. He asked that the Committee endorse these associated governance arrangements

- Under ethical standards and FRC guidance, an external audit manager was allowed to work on a particular audit for a maximum of 10 years. The PSAA who were responsible for appointing the external auditors had a lower threshold of 7 years with an opportunity to extend for a further 3 years if appropriate. Recruitment of experienced auditors had proved to be an issue for the external auditors. The current Engagement Manager was very experienced and PSAA approval had been sought to extend her engagement for a further year (In total, 8 years for the Council and 9 year for the Pension Fund (similar disclosures were made for the Pension Fund last year)). Safeguards had been put in place including an internal Grant Thornton peer review (Quality Support Team) of both the Council and Pension Fund audit files during the 2020/21 cycle and the CFO had indicated that he was comfortable and understood the reasoning on quality grounds for the re-engagement for a further year. He asked that the Committee endorse this reappointment and the associated governance arrangements
- Materiality had not be determined yet but would be assessed on a similar basis to previous years for both the Council and the Pension Fund
- The audit plan work would focus on the significant risks for the Council which were not dissimilar to the 2019/20 accounts including revenue recognition and management override, valuation of land and buildings, and valuation of net pension liability
- Work would continue to focus of the Accounting Estimates for land and buildings and pensions to ensure management had an understanding of these estimates and that those in governance understood that there were controls in place. A report on the management response would be brought to a future Committee meeting
- A key focus of the audit of the Pension Fund would relate to Level 3 investments. The external auditor would also be seeking to ensure that there were sufficient checks and balances in place to challenge expert advice received by managers
- Value for Money – This work had yet to be planned. It was intended that a plan would be submitted to the Council by the end of March/beginning of April. The plan would then be circulated to Committee members before the next meeting.

In the ensuing debate the following points were made:

- The Chairman indicated that he was satisfied that reasonable safeguards had been put in place to ensure the independence of the work associated with the audit of the accounts following the move of an external auditor to the Internal Audit team at the Council. He also recognised the good professional relationship that had been established with the current Engagement Manager over a number of years. He noted the recruitment issues facing the external auditor and the impact that any change of manager could have on the audit quality and process at this stage. He was happy to endorse both proposed courses of action
- The re-appointment of the current Engagement Manager provided an important element of continuity for the accounting process. Her ability to understand and challenge processes was also recognised
- Reassurance was sought that there would not be any impact on the Council's auditing process as a result of the late submission of the audit plan. Peter Barber responded that although at this stage work was behind schedule, the target remained to meet the deadline for the publication of the accounts at the end of September however, this aim was predicated on there not being any further resourcing issues. Those audits that had been completed first last year would be prioritised this year, including Worcestershire County Council. Mark Sanders, Deputy Chief Finance Officer (Corporate Finance) added that the accounts team had been strengthened over the last year and were now at full complement. Despite the absence of an audit plan, preparation work for the accounts continued and the programme of work was on track, albeit with contingency arrangements in place. The aim was to bring the draft accounts to the Committee meeting in July 2021
- The Chairman indicated that the arrangements for the publication of the Accounts had improved considerably over recent years and he was confident that the Accounts team in liaison with the external auditor would be able to meet the deadline for its publication.

RESOLVED that:

- a) **The Annual Audit Letter 2019/20 as set out in**

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

Appendix 1 to the report be noted;

- b) The content of the External Audit Progress Report and Sector Update as set out in the Appendix 2 to the report be noted;**
- c) The appointment of the current Engagement Manager as the external auditor's Engagement Manager to the Council for a further year along with the associated governance arrangements undertaken by the external auditor be endorsed; and**
- d) The governance processes put in place by both the Council and the external auditor to ensure that there are no conflicts of interest following the appointment of an officer from the external audit accounts team to the Council's accounts team be endorsed.**

The Committee considered a report on Income Management.

In the ensuing debate, the following points were made:

- Niki Hardman, Programme Manager explained that an overall Council debt position of £30m had been recorded in October 2020. This had since been reduced but there remained a significant amount of work to complete, particularly around aged debt. The aim of the debt team was to engage the whole of the council but in particular those involved in the raising of debt by increasing awareness and encouraging officers to take greater responsibility for debt management in their role. A revised Corporate Debt Policy would be formulated. It was acknowledged that not enough debt was being forwarded to legal services and processes were being reviewed to improve that. The total amount of debt for the top 20 debtors was now £6.7m reduced from £14.8m in October 2020. Mark Sanders added that debts which related to individuals in a social care setting were treated with a greater degree of care and due diligence
- There were a number of large organisations included in the aged debt list. At what point would the Council commence sanctions against these companies, for example no longer commissioning work from them until the debt was paid? An action plan needed to be in place showing how

organisational debt (excluding individual debt) would be recovered and what possible sanctions could be introduced (without compromising the Council's legal position). This action plan should be reported to the Committee. Michael Hudson responded that an action plans had been formulated for each aged debt and legal services had been brought in to help take these strategies forward. He anticipated that by the next Committee meeting, significant progress would be made on aged debt. The action plans could be shared with the Committee albeit respecting the confidentiality of the information

- A note of caution was raised about the introduction of sanctions against aged debtors. The council needed to be conscious of its own debt arrangement before considering the introduction of sanctions
- The lack of referrals to legal services was concerning, given that a number of the aged debts had accrued over a long period of time. It seemed that the longer the debt accrued, the more difficult it became to resolve them
- Catherine Hitchman, Principal Solicitor (Adult Social Care Education and Debt Recovery Team) explained that a legal team had been established and been working closely with the debt team to establish debt referral and management processes. Two main types of debt had been referred to legal services. Firstly social care debt which equated to £93k and mostly related to deceased individuals with the charge on their estate for payment of social care costs. £61k of this debt had now been recovered. Secondly, there was sundry debt which amounted to £13k. 63 cases had been referred to the legal team since the start of the year. To date no cases had been issued to court. Legal Services would continue to work with the debt team to formalise a Corporate Debt Policy and a write-off policy
- In response to a query about the approach taken in a particular case where the Council had instructed a private solicitor to recover debt on its behalf, Michael Hudson advised that details of this specific case would be provided to individual members in confidence as requested
- The Chairman expressed his gratitude to senior officers for taking the Committee's concern about outstanding debt seriously. He was reassured that, with the greater resilience in the system and the establishment of the debt and legal teams, the

591 Risk Management Update (Agenda item 9)

remaining outstanding debt would be addressed going forward. He emphasised the importance of early intervention in debt recovery and welcomed the introduction of a Corporate Debt Policy. The centralisation of debt recovery had been important but all directorates had to take responsibility for debts accrued in their service area. He recognised that reluctantly a certain amount of debt would need to be written off. He did not believe that sanctions for debtors was the way forward but would wish to see action plans for the top 20 aged debts at the next Committee meeting.

RESOLVED that the Income Management report be noted.

The Committee considered the Risk Management Update.

In the ensuing debate, the following points were made:

- Jenni Morris indicated that it was intended to move away from multiple risk register approach in the future and consolidate them into a single risk register
- The change of focus of risk management on emerging risks as well as any changes to established risks was welcomed. It was suggested that a periodic review of all the risk registers be undertaken to maintain a focus of the organisation on the bigger picture. The progress and improvements made to the risk register over recent years was acknowledged. Jenni Morris responded that consideration was being given to using similar language and themes across all aspects of audit, risk and performance management work so that the organisation provided a consistent message. This approach would enable the council to identify key themes
- The Chairman welcomed the recent progress made in the management of risk. The inclusion of the same red risks year after year without any hope of reducing the risk was pointless. He therefore welcomed the focus on addressing emerging risks before they became significant.

RESOLVED that the Risk Management update be noted.

592 Statutory Accounts 2020/21 progress, accounting policies and estimates (Agenda item 10)

The Committee considered the Statutory Accounts 2020/21 progress, accounting policies and estimates.

In the ensuing debate, the following points were made:

- Mark Sanders indicated that as part of the member induction process following the elections, it was intended to provide a specific training session for committee members on management assessments and risks associated with the accounts
- It was important that post elections, committee members received the necessary training/information to enable them to adequately challenge council processes.

RESOLVED that:

- a) **The work in preparation for the 2020/21 Statutory Accounts be noted;**
- b) **The accounting policies for 2020/21 be approved; and**
- c) **Management arrangements to identify and evaluate accounting estimates be noted.**

593 Work Programme (Agenda item 11)

The Committee considered the Forward Plan.

The Chairman thanked members of the Committee, officers and representatives of the external auditor for their contribution to the work of the Committee over the life of the Council. The Chairman was thanked for his contribution and leadership.

RESOLVED that the work programme be noted.

The meeting ended at 12.00 Noon.

Chairman