

Minutes of the Audit and Governance Committee

County Hall, Worcester

Thursday, 29 July 2021, 10.30 am

Present:

Cllr Nathan Desmond (Chairman), Cllr Salman Akbar, Cllr Laura Gretton, Cllr Peter Griffiths, Cllr Aled Luckman and Cllr Dan Morehead

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 12 March 2021 (previously circulated).

594 Apologies and Named Substitutes (Agenda item 1)

Apologies were received from Cllrs Aled Evans and Luke Mallett and Helen Lillington from Grant Thornton.

595 Declarations of Interest (Agenda item 2)

None.

596 Public Participation (Agenda item 3)

None.

597 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 12 March 2021 be confirmed as a correct record and signed by the Chairman.

598 2020/21 Internal Audit Final Report (Agenda item 5)

The Committee considered the 2020/21 Internal Audit Final Report.

In the ensuing debate the following points were raised:

Audit and Governance Committee Thursday, 29 July 2021
Date of Issue: 25 August 2021

- In response to a query about whether any lessons could be learned from the five allegations of fraud reported during the year, Jenni Morris, Chief Internal Auditor commented that there had been cases where policies and procedures were unclear or where more than one policy existed with contradictory information. It was very difficult to prove that fraudulent activity had taken place in those circumstances. The key elements for addressing fraud were to ensure that policies and procedures were clear and better understood and where necessary undertake an audit in the relevant area.
- Jenni Morris confirmed that alongside the Anti-Fraud and Corruption Policy, Human Resources administered a separate Whistle-blowing policy
- How did the audit assurance ratings compare with last year? Jenni Morris advised that the outcomes were similar. The number of completed audits had increased because a greater focus of the work had been on schools and therefore a large number of schools had been audited. It was reassuring that there had not been an increase in the number of limited audits but there was still room for improvement
- There remained eight limited assurances last year. What plans were in place to improve assurance levels in these areas? Jenni Morris explained that the limited assurances related to:
 - Four school audits – School assurance levels were unique because the budget accounted for a significant part of the audit. Where a school was in deficit, Internal Audit (IA) would examine the ways in which the school managed its budget
 - Long-term agency placements – Human Resources had tightened up their procedures but there remained an issue with the level of use of consultancy staff where staff had been diverted to covid-related work. It was anticipated that this position would improve and IA would follow this up
 - Debt Management – It was found that processes were not being effectively managed. The service had come in-house and a new debt manager had been appointed. IA were checking the robustness of the policies
 - Capital and Business Case Development – It was clear that the necessary audit actions were being done but there was insufficient evidence to support the findings. IA were therefore working closely with staff to improve processes
 - Direct payments to social care clients – Changes had been made to the scheme at pace but the equivalent governance procedures had not altered at the same rate
- What training and development opportunities were available to staff concerning anti-fraud and corruption? Jenni Morris advised that current training was undertaken at a low level but a course had been developed as part of the Council's mandatory E-learning training programme which would be rolled out in quarter 3. However, it was recognised that e-learning was not always the most effective training approach and IA would work with the Chief Officers Group to find ways to embed learning. IA was focusing on understanding the key fraud areas and what activities existed to tackle it. IA were also working with teams to

ensure that the most appropriate reporting and escalation mechanisms were in place

- In response to a query, Jenni Morris indicated that the work associated with fraud investigation and risk management was undertaken by two staff members including the Risk and Assurance Manager. She acknowledged that the staffing resources were limited for this type of work however, it was difficult to assess the staffing requirements without understanding the scale of the problem. A number of different approaches were being considered to address this issue
- What further work was being undertaken with schools to raise their assurance levels? Jenni Morris indicated that all schools were provided with an action plan to identify whether any governance support was necessary, particularly for schools that had reported a budget deficit. Very often the deficit was associated with falling rolls and IA worked with Worcestershire Children First and the school to assess staffing requirements
- The Chairman welcomed the improvements made in Internal Audit over the last couple of years but recognised that there remained room for improvement.

RESOLVED that the Internal Audit 2020/21 Final Report and assurance level be noted.

599 External Audit - Council and Pension Fund Audit Plans and Informing the Audit Risk Assessment (Agenda item 6)

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

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

Worcestershire County Council External Audit Plan

- Due to a backlog of work associated with the 2019/20 audit process, the Audit Plans were being reported to the Committee later than usual
- Following the creation of Worcestershire Children First, the Council had been required to produce group accounts in 2019/20 and this would continue into 2020/21 accounts process
- Materiality for the Council's accounts had been set at 1.5% which equated to £13m
- In April 2020, the National Audit Office introduced a new Code of Audit Practice which came in effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money (VFM). The Code required auditors to structure their commentary on arrangements under three specified reporting criteria: Improving economy, efficiency and effectiveness, Financial Sustainability; and Governance. The deadline for producing the VFM audit opinion had been extended for a further three months after the accounts deadline

- Discussions would take place with the Council about the scale of the external audit fee because there was a proposed sizeable increase in the fee, particularly in respect of the VFM audit work
- There had been a reduction of £2.5k to 2019/20 fee which had been originally set at £102,393. The reduction was due to a cost of work undertaken on behalf of Grant Thornton for Property, Plant and Equipment that ended up less than expected and this reduction was therefore passed onto the Council
- A member of the Grant Thornton team had moved across to the County Council finance team. That member of staff had not been involved in the auditing process to ensure it did not impact on the independence of the audit process. In addition, the PSAA had granted the external auditor's Engagement Manager an extension to allow her to work on the 2020/21 accounts.

Worcestershire Pension Fund External Audit Plan

- The materiality of the Pension Fund had been determined to be £26.4m which equated to 1% of the prior year net assets. This had increased from the previous year due to an uplift in the financial markets and consequent increase in the value of the Pension Fund
- The valuation of Level 3 Investments was the most significant risk for the Pension Fund. Although the Pension Fund had a low number of such investments, it was still regarded as a significant risk.

Informing the audit risk assessment for Worcestershire County Council and the Pension Fund

- As part of the risk assessment procedures, external audit was required to obtain an understanding of management processes and the authority's oversight of General Enquiries of Management; Fraud; Laws and Regulations; Related Parties; and Accounting Estimates. He was satisfied with the level of understanding in the responses received from management to a series of questions relating to these areas but the Committee also needed to satisfy itself.

In the ensuing debate the following points were raised:

- In response to a query about the timeframe for the completion of the audit of the accounts, Peter Barber indicated that the work on the Pension Fund accounts had been prioritised and was very well progressed. Audit work on the accounts was in its early stages. The aspiration was to bring the audited accounts to the September Committee meeting
- In response to a query about the process for determining the external audit fee, Peter Barber indicated that the fee was calculated retrospectively but with an understanding of the work that was being undertaken at present
- Would there be any further changes to the external audit fee going forward? Peter Barber responded that the fee would need to take account of the work associated with the new VFM criteria. Michael Hudson commented that the fee had increased considerably over recent years. The Government would be issuing a grant to Councils to

recognise the extra work involved but the amount was not yet known. He queried whether the reduced fee for the work associated with Property, Plant and Equipment would continue into future years. Peter Barber indicated that he was optimistic that this reduction would continue but it had not filtered into the plans yet

- Although there had been a large jump in recent fees, the Redmond Review had argued that fees had been kept artificially low and these increases should bring the fees nearer to where they should be
- It was queried whether the proposed fee for 2021 would radically alter as a result of the VFM work. Peter Barber responded that the fees were set as at May 2021 but there could be changes to reflect any additional work undertaken by external audit
- The Chairman welcomed the progress made on the audit of the accounts albeit from a later starting position and he thanked the Chief Financial Officer and finance team for their work to date
- Peter Barber explained that it was highly unlikely that the VFM audit work would be completed by the September Committee meeting because it was very time-consuming. The target was to complete this work before the end of December 2021
- What would happen if the VFM audit work was not completed by the end of December? Peter Barber explained that the external auditor would not be able to certify the accounts which would remain open until this work was concluded
- The Committee was satisfied with the responses received from management to questions raised by the external auditor in respect of the audit risk assessment.

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

600 Draft Annual Governance Statement 2020/21 (Agenda item 7)

The Committee considered the Draft Annual Governance Statement 2020/21.

RESOLVED that the draft Annual Governance Statement 2020/21 be noted.

601 Draft Annual Statutory Financial Statements for the year ended 31 March 2021 (Agenda item 8)

The Committee considered the Draft Annual Statutory Financial Statements for the year ended 31 March 2021.

In the ensuing debate, the following points were raised:

- It was queried why the Directorate reserves had increased from £28.1m to £47.9m. Mark Sanders, Deputy Chief Finance Officer (Corporate Finance) explained that the main reason related to a £14m increase in covid grants received from the Government

- The Chairman was pleased that despite an exceptional year due to the impact of Covid, the unaudited accounts recorded an underspend of £800k for the financial year and he thanked the Chief Financial Officer and the finance team for their work. He considered that the strong financial controls that the Council had introduced had been reflected in this outcome.

RESOLVED that the draft Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2021, be noted.

602 Internal Audit Progress Report (Agenda item 9)

The Committee considered the Internal Audit Progress Report.

In the ensuing debate, the following points were raised:

- The introduction of younger staff members to the IA team through the apprenticeship scheme was welcomed. It was also important that members were made aware of continuity issues within IA. Jenni Morris commented that a key part of staff resourcing was successor planning including the position of the Chief Internal Auditor. Similar to the position of external auditor, the Chief Internal Auditor should not be too familiar with the organisation
- How did IA prioritise the audit plans? Jenni Morris explained that a major element of the audit planning process was an assessment of risk. Risks changed very quickly so the plans were kept under review and amended as necessary to reflect the risk landscape. Michael Hudson, Chief Financial Officer added that he was responsible for ensuring that IA was adequately resourced to undertake the work and this was regularly monitored. Any changes to the audit plans would be reported to Committee.

RESOLVED that the Internal Audit progress report be noted.

603 Risk Management Update (Agenda item 10)

The Committee considered the Risk Management Update.

In the ensuing debate the following points were raised:

- In response to a query, Jenni Morris confirmed that the Pentana Risk system was on track for implementation in September. The most difficult aspect was to ensure that the data input into the system was cleansed appropriately. The system would need time to embed itself
- Risk management was a vital aspect of the work of the Council and it was important to have a meaningful risk register that was not just a tick-box exercise. It was clear that the changes being made to the system were robust and added value. The Council's previous approach had been backward-looking at red risk rather than addressing issues associated amber risks before they escalated. Jenni Morris responded

that as risks emerged the organisation needed to be held to account for them and address the issues at an early stage. It needed to be recognised that some red risks would remain red whatever action plans were in place. The Council needed to determine its appetite for risk, in other words how far would it go in assessing risks and understand the issues associated with linked risks

- In response to a query, Jenni Morris indicated that she was keen to establish an issues register but there was a danger of getting caught up in the semantics of what constituted a risk and what was an issue. Michael Hudson added that IA was trying to ensure that good management practices were embedded throughout the organisation
- In response to a query, Jenni Morris indicated that risks were cyclical in nature so the function of IA was to look back at management activities to see what could be learned but also to look to the future impact
- Training on risk should be included in the Committee's training programme.

RESOLVED that the Risk Management update be noted.

604 Income and Debt Management (Agenda item 11)

The Committee considered the Income and Debt Management update.

In the ensuing debate, the following points were raised:

- Mark Sanders undertook to circulate an unanonymised list of top 20 debtors to members. He added that since the report was written, a further five items of long term debt had been collected totalling approximately £1m
- There appeared to be a significant amount of debt that whilst identified to an individual debtor, further analysis was needed to assign the income to an individual debtor invoice as the amounts received did not match the amounts outstanding precisely. It was important that the Council was aware of which accounts were outstanding to enable debt collection processes to be run effectively
- How many debts had led to litigation action and how well prepared was the Council to undertake such action? Mark Sanders responded that the Council was taking a serious approach to litigation and would take legal action where necessary. There were sensitivities around certain cases for example where a service user had passed away. Resources had been invested into legal services and there were 20-30 cases ongoing. The work was at an early stage and should pay dividends over time
- How did the provision for bad debt write-off relate to income and debt management work? Mark Sanders indicated that bad debt provision was held in a separate register
- Did the Council have a system for assessing the risk associated with an individual debt for example the ability to recover that debt? Mark Sanders commented that the top 20 debts had been arranged on a numerical not risk basis. At present, there was not the available information to be able to provide a risk-based assessment of debts. The

introduction of a financial appraisal programme would lead to a clearer understanding of why debts were being raised in the first instance and why they could not be paid up-front

- In response to a query about the £3m increase in debt write-off, Mark Sanders indicated that the underlying debt would be smaller if all debts were written off to the extent expected
- A further column would be useful in the table of top 20 debts set out in the report which included comments on actions being taken, for example where projects plans were in place
- At what point did the Council determine that it was not appropriate to continue to provide a service until a debt had been paid? Mark Sanders commented that the Council requested payment within 30 days of the submission of an invoice. There were certain sensitive areas where it would not be appropriate to withdraw a service. The Council could take an approach whereby it would not pay for a service until the particular debtor paid this Council's debt
- The Chairman welcomed the progress made in recognising the problem and then tackling long term debt with the creation of a centralised finance team
- What actions were being taken to address the £6m long-term debt that was outstanding over 12 months old? Michael Hudson advised that these debts were up to seven years old and in some cases, there was little chance of recovery. There could be a point reached where a £2k debt might cost £3k to recover and at that point the bad debt provision would be actioned. However, he emphasised that this £6m of outstanding debt remained a focus of the debt recovery team.

RESOLVED that the Income and Debt Management report be noted.

605 Work Programme (Agenda item 12)

The Committee considered the Work Programme.

In the ensuing debate, the following points were raised:

- The Committee Officer indicated that a steer was requested from members as to the form of training they would wish to receive and the subject matter of that training
- The Chairman indicated that training was imperative for members particularly with so many new councillors on the Committee. He would prefer shorter sessions to be arranged immediately prior to each Committee meeting with the first training sessions focussing on the key functions of the Committee
- It would be beneficial if the training programme linked in with the work programme so that members received an appropriate training session in advance of the relevant item on the agenda
- It would also be helpful if members received background information ahead of the training session to enable them to be better prepared to ask pertinent questions

- Michael Hudson indicated that a skills and knowledge questionnaire would be circulated for completion by members of the Committee. This would be used to form the basis of the focus of the training sessions to address gaps in knowledge.

RESOLVED that the work programme be noted with the addition of a Training Programme report being brought to the Committee meeting on 24 September 2021.

The meeting ended at 1.15pm.

Chairman