

## **Minutes of the Audit and Governance Committee**

### **County Hall, Worcester**

**Friday, 24 September 2021, 2.00 pm**

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#### **Present:**

Cllr Nathan Desmond (Chairman), Cllr Aled Evans, Cllr Laura Gretton and Cllr Peter Griffiths

#### **Available papers**

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 29 July 2021 (previously circulated).

#### **606 Apologies and Named Substitutes (Agenda item 1)**

Apologies were received from Cllrs Akbar, Luckman, Mallett, and Morehead

#### **607 Declarations of Interest (Agenda item 2)**

None.

#### **608 Public Participation (Agenda item 3)**

None,

#### **609 Confirmation of Minutes (Agenda item 4)**

**RESOLVED** that the Minutes of the meeting held on 24 September 2021 be confirmed as a correct record and signed by the Chairman.

#### **610 Internal Audit Progress Report (Agenda item 5)**

The Committee considered the Internal Audit Progress Report.

In the ensuing debate, the following points were raised:

- What was the nature of the frauds uncovered by Internal Audit, were they thematic or more general? Jenni Morris, the Internal Auditor responded that frauds tended to vary in nature. One particular area of fraud that was growing related to direct payments. This was due to the way in which direct payments were allocated. As a result, direct payments had been given a limited assurance and suitable control mechanisms were being devised
- In response to a query about the overall spend on fraud investigations and recovery rates, Jenni Morris commented that there was limited budget allocated to work associated with fraud. The fraud team were also responsible for risk management. A business case was being devised to provide additional support for the team. It was very difficult to gauge the extent of the recovery of fraudulent gains
- Did Internal Audit undertake an assessment of the cost/benefits of pursuing an incident of fraud? Jenni Morris indicated that a triage process had been introduced that assessed in the first instance whether a fraud had actually occurred. The amount involved was then assessed to determine whether it was large enough to pursue or would be better addressed through the internal audit process. The key element was to follow this process through as fraud tended to be very individual in nature with rare instances of consistent fraud
- The Chairman was pleased to see the reduction in the number of outstanding internal audit actions. The change in strategy adopted by Internal Audit was now starting to pay dividends
- There could be occasions where an employee had not deliberately committed a fraud but merely misinterpreted a policy. Was it mandatory for staff to attend fraud awareness training? Jenni Morris responded that accidental fraud did occur as a result of a misunderstanding of policy/procedures. A training programme had been developed for all staff to complete as part of the on line staff development programme. However, to some extent, fraud awareness was more about ensuring that Council policies/procedures were clear in the first instance. The Council had a large number of policies which could be very long and complex. A common theme of audits was to ensure that there were fewer and clearer policies to improve control mechanisms. On occasions where policies were unclear, it was difficult to prove that a fraudulent activity had taken place.

**RESOLVED** that the Internal Audit Progress Report be noted.

## **611 Statutory Accounts and Pension Fund 2020/21 - External Audit Findings Report (Agenda item 6)**

The Committee considered the Statutory Accounts and Pension Fund 2020/21 - External Audit Findings Report.

Peter Barber, Key Audit Partner and Helen Lillington, Senior Audit Manager from Grant Thornton, the Council's external auditor presented the report and commented that:

- The majority of the audit work had been undertaken and it was hoped to complete the outstanding work by the deadline for the submission of the Accounts. It was unfortunate that the audit work had been delayed from the outset due to work associated with councils who had failed to finalise their Accounts on time to meet the deadline last year. This Council and the Pension Fund had been selected as a sub-sect of Accounts that would be prioritised for this year
- There had been a good level of co-operation with the Council's Finance Team and the stage had now been reached where there was confidence in the quality of the paperwork provided. However, based on guidance from the regulators, external audit's approach had been more questioning/challenging than in previous years
- The work on the audit of Pension Fund Accounts was nearly complete and no material errors had been found. The work on the audit of the Council's accounts was slightly behind schedule but audit time had been set aside to complete the necessary work to attempt to meet the deadline
- Extra controls/safeguards had had to be introduced because the Senior Audit Manager had been working on this Council's and the Pension Fund's Accounts for the maximum term permitted to work on a particular council's Accounts under the regulations
- There were no material errors found in the Council's Accounts to date. An increased level of materiality had been assessed which reflected additional expenditure throughout the year. This was not an unusual change compared to other councils
- The deadline for the work associated with the Value for Money Audit had been extended for a further 3 months to the end of December. Work had already commenced on this audit and the outcome of this audit would be reported to this Committee.

In the ensuing debate, the following points were made:

- The Chairman acknowledged the amount of work undertaken by the Finance Team and Grant Thornton to get the Accounts to this point despite the impact of Covid 19 and home-working albeit not yet finalised. He also welcomed the fact that no material errors had been found to date
- Did the Finance team have a process to understand and address lessons learned following the publication of the Accounts? Rachael Hart, Financial Reporting Manager responded that following the sign off of the Accounts, the Finance team reviewed its processes to establish lessons to be learned in order to improve practices for next year. Peter Barber added that external audit would also liaise with the Finance Team to look at lessons learned. Michael Hudson, Chief Financial Officer acknowledged the co-operation between Grant Thornton and the Finance Team.

**RESOLVED** that the Grant Thornton Audit Findings Report for the Worcestershire County Council Statutory Accounts 2020/21 and Worcestershire County Council Pension Fund Accounts 2020/21 be noted.

## 612 **Annual Statutory Financial Statements for the year ended 31 March 2021 (Agenda item 8)**

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

In the ensuing debate, the following points were made:

- Michael Hudson recommended that the order of the agenda be changed so that the Accounts be considered before the Annual Governance Statement on the basis that the Accounts could not be signed off at this meeting and therefore the Annual Governance Statement could not be signed. However, if members believed that there were any material issues of concern in the Statement then the order should remain as per the agenda papers
- Mark Sanders, Deputy Chief Finance Officer (Corporate Finance) indicated that the final Accounts were virtually the same as the draft version presented to the last Committee meeting aside from some minor changes on Disclosures. There were no material errors to date. The Finance team would be available to address any subsequent residual queries from Grant Thornton on the Accounts and he was confident that there were no issues of materiality that would prevent the Accounts being signed off on time
- In response to a query about the recent strong performance of the Pension Fund, Michael Hudson acknowledged that the Pension Fund had performed well over the last year mainly as a result of the performance of its c75% holding in equity
- The Chairman welcomed the Council's healthy position in terms of the progress made towards signing off the Accounts and in particular the forecast underspend of £0.8 million against the net budget of £346.3 million.

### **RESOLVED that:**

- a) Assuming there are no material issues or disputed amendments remaining as advised by Grant Thornton as a result of the additional audit work necessary to finalise the Accounts then the Committee recognises the technical reasons for not being able to sign off the accounts at this meeting and 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 2021;**
- 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 to sign off the Statement of Accounts prior to the deadline for the submission of the Accounts; 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.**

## **613 Annual Governance Statement 2020/21 (Agenda item 7)**

The Committee considered the Annual Governance Statement 2020/21.

In the ensuing debate, the following points were made:

- Mark Sanders introduced the report and indicated that there was no change to the draft Statement reported to the last Committee and in particular no changes to risks or governance
- Was risk management the responsibility of Internal Audit or had a hybrid approach been adopted? Jenni Morris indicated that risk management was the responsibility of Internal Audit which operated through the Corporate Risk Management Group. This Group consisted of key officers from across the Council. Risks were managed through this Group and reported to the Chief Officers Group.

**RESOLVED that:**

- a) **Subject to the approval of the Worcestershire County Council Statutory Accounts 2020/21 and Worcestershire County Council Pension Fund Accounts 2020/21 by the Chairman in consultation with the Vice-Chairman, the Chief Financial Officer be authorised to arrange for the Annual Governance Statement 2020/21 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 2020/21 be deferred to a special meeting of the Committee.**

## **614 Risk Management Report (Agenda item 9)**

The Committee considered the Risk Management Report.

In the ensuing debate, the following points were made:

- In response to a query about the risks associated with the use of software by external contractors, Jenni Morris highlighted the contractual arrangements with Liberata for the Council's payroll and financial services as an example. This was a significant piece of software being managed by Liberata on behalf of the Council for its HR system. There were risks associated with maintenance, system failures and who owned the software when the contract came to an end
- In response to a query about the monitoring of risks, Jenni Morris indicated that risks were monitored on a fortnightly basis at present. It was hoped that this would become a monthly process with management

on a local basis. Certain risks did not change and therefore did not require the same level of monitoring as others

- In response to a query about the ownership of risks, Jenni Morris explained that the responsibility for risk management rested in her team because it was part of the audit plan. Her team met on a weekly basis to review risks. She reviewed the risk register on a quarterly basis to identify emerging risks. Business Continuity Planning was the responsibility of public health and was part of the consideration by the Corporate Risk Management Group
- The Chairman welcomed the new approach to risk management which was more meaningful and recognised the importance of emerging risks for example those risks that were currently amber
- Who were the members of the Corporate Risk Management Group and how did it report to senior management? Jenni Morris explained that each Directorate had a representative on the Group. All the members had appropriate training although she acknowledged that some members were not as senior as she would like. The Strategic Leadership Team were aware of the work of the Group and she reported to them on a quarterly basis.

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

## **615 Income and Debt Management (Agenda item 10)**

The Committee considered the Income and Debt Management report.

In the ensuing debate, the following points were made:

- Did the Debt Management Team provide advice to other teams within the council to improve payment processes? Nicky Hardman, Income and Debt Manager indicated that this approach had not been adopted yet. An analysis of invoices that had been processed was currently underway. The outcome of this review should hopefully be available before the end of the calendar year
- It was queried whether an in-house legal team was the right and most effective way to undertake debt recovery. Nicky Hardman responded that this arrangement had only just been established and it was too early to say whether it was cost-effective or an alternative approach should be considered
- It was important that the Council introduced time-limits for the recovery of debt and was prepared to take the necessary actions to recover debt. In this respect, the Debt team and the Legal team needed to work well together. The Council as a whole needed to take ownership of debt and debt recovery
- In response to a query, Nicky Hardman explained that the current process for triggering action concerning a debt over 31 days old was not working and would be reviewed. Michael Hudson added that at present, the budget was credited on the day that the invoice was raised but they would be exploring changes that could mean this would not happen until the cash was received. To make the necessary changes to the system would take some time. A Financial Improvement Programme

report would be brought to the next Committee meeting in December which would give members a clearer picture of the processes

- It was queried whether the Council carried out credit ratings on its clients and whether the Council could withdraw service provision if a debt remained unpaid. Niki Hardman confirmed that the Council did not currently credit rate its clients but it was an approach that might be built into new processes. Michael Hudson added that the Council as a public service had to tread carefully in respect of the treatment of certain debtors and there were other more appropriate ways to get the message across about meeting payment deadlines.

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

## **616 Training Programme (Agenda item 11)**

The Committee considered the Training Programme,

In the ensuing debate, Michael Hudson requested that members complete and return the Self-Assessment and Knowledge forms by end of October 2021.

**RESOLVED** that:

- a) The Training Programme as set out in paragraph 5 of the report be approved; and
- b) Members of the Committee complete the appended knowledge survey to inform longer term training plans for the Committee.

## **617 Work Programme (Agenda item 12)**

The Committee considered its Work Programme.

In the ensuing debate, it was noted that the report on the Financial Improvement Programme would be brought to the Committee meeting on 3 December 2021.

**RESOLVED** that the work programme be noted with the addition of the Financial Improvement Programme report being brought to the Committee meeting on 3 December 2021.

The meeting ended at 4.15pm.

Chairman .....

