

Minutes of the Audit and Governance Committee

County Hall, Worcester

Friday, 3 December 2021, 10.00 am

Present:

Cllr Nathan Desmond (Chairman), Cllr Salman Akbar, Cllr Laura Gretton, Cllr Peter Griffiths, Cllr Luke Mallett and Cllr Emma Stokes

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 24 September 2021 (previously circulated).

618 Apologies and Named Substitutes (Agenda item 1)

Apologies were received from Cllrs Aled Evans and Dan Morehead.

619 Declarations of Interest (Agenda item 2)

None.

620 Public Participation (Agenda item 3)

None.

621 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.

622 Statutory Accounts 2020/21 Progress update (Agenda item 5)

The Committee considered an update on the progress of the Statutory Accounts 2020/21.

Mark Sanders, Deputy Chief Finance Officer introduced the report and commented that nationally only 9% of councils had had their accounts signed-off by the external auditor by the end of September 2021. To date, 77% of councils had not yet had their accounts signed-off. In relation to this Council's Accounts, the changes made since the report to Committee in September had been highlighted in yellow and mainly related to disclosures that had no material impact on the Accounts. There had also been one update to the Group Accounts.

He explained that unfortunately, Grant Thornton had notified the Council that it would not be possible to sign-off the Statement of Accounts at this meeting due to a new last-minute technical issue that had arisen. The issue related to the way in which Place Partnership Limited (PPL) had been recorded in the draft Accounts of a partner organisation which was inconsistent with the recording in this Council's and other partner's Accounts.

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

- The changes made to the Accounts since the Committee meeting in September had been of a technical nature and did not impact on the stability and financial resilience of the Accounts
- Grant Thornton was the external auditor for each of the local authority shareholders of PPL, and, under its commercial arm, was also the external auditor of PPL. It came to Grant Thornton's attention that there was an inconsistent treatment of PPL across the 3 partner shareholders' accounts. Although the sums involved (£5/6m spend) was considered immaterial, there were significant assets and liabilities in the Pension Fund. It was important to see a consistent approach to the audit of PPL to ensure that there was no double-counting or any matters omitted. It was therefore not possible to sign-off the Accounts until this matter was resolved. A meeting of all the auditors involved with PPL would be held next Tuesday
- The changes to the Accounts mainly related to Capital Financing Regulations and Financial Instruments
- The key issue in relation to Capital Financing Regulations concerned the way in which the Council had treated its PFI arrangements with West Mercia Waste in its Accounts. The Accounts had been amended to show the capital financing requirements and the Council's underlying need to borrow separately within the disclosure notes to the Accounts. As this was a disclosure, there was no impact to the Council's Reserves, Balance Sheet or financial resilience
- The external auditor was required to report all non-trivial misstatements and disclosure changes. Most of the disclosures related to the Financial Instruments and a large number of changes had been required. Some of the changes had been made now but some would need to be made in later years.

In the ensuing debate, the following points were made:

- Concern was expressed about the external auditor's access rights to the audit data across partner authorities. Peter Barber responded that Grant Thornton respected the independence and confidentiality of partner authority's data but as the external auditor, it was appropriate to examine all appropriate disclosures and given that PPL was co-owned it was possible for Grant Thornton to access the information. It was not necessarily a case that this Council's approach to auditing PPL was incorrect but establishing the appropriate and reasonable approach across the partner authorities
- In response to a query, Helen Lillington explained that the Council changed their accounting policy in relation to the MRP for PFI arrangements four years ago. This was some time after the Council had set up its PFI arrangements with Mercia Waste Management. At that time, there had not been an issue in terms of the material impact of these arrangements on the Accounts. However, a couple of recent high profile national MRP accounting issues had arisen, and as a result, MRP arrangements had become a major area of focus for external audit
- Concern was expressed that members were required to make a decision on the Accounts having received extensive documentation at very short notice with very little time to read and understand them. An assurance was sought that members would not receive the accounts at such short notice in the future. The Chairman responded that he took on board these concerns. There were mitigating circumstances for the late despatch of paperwork but in the future, every effort would be made to avoid this scenario being repeated
- In response to a query, Rachael Hart, Financial Reporting Manager indicated that following the issues raised by the external auditor in relation to PPL, a working group had been established with partner authorities to share best practice
- Was it appropriate to continue with the same valuer for a 5 year period? Rachael Hart indicated that the Council had previously used PPL as its valuer but had recently reappointed Wilks Head & Eve for its property valuations. Wilks Head & Eve had previously been used by Grant Thornton and their appointment was in line with best practice. Helen Lillington added that the valuation of the Council's property portfolio was a significant piece of work and risk. There had been a national issue regarding the quality of external valuations but the paperwork provided by the Council's valuer was of a high standard
- The preparation of a lessons learned report following the Accounts process was welcomed. Were officers confident that the audit resources and processes were in place to meet the statutory deadlines next year? Rachael Hart responded that there were two steps in the Accounts process, accounts preparation followed by the statutory audit process. The accounts closedown plans and associated risks had been set out for next year. The finance team had always met its internal deadlines. In due course, the finance team would agree with Grant Thornton a timetable for the submission of papers and for answers to queries. The Chairman added that the difficulties experienced this year were outside the control of the County Council. The finance team had been provided with sufficient resources to do the necessary work and had met all the deadlines

- Peter Barber confirmed that the Council did have strong arrangements in place for the preparation of the Accounts. He emphasised that there were no changes to the materiality of the Accounts as a result of the last minute technical issues. He acknowledged that the preparation of the Accounts had become more resource intensive process for both the finance team and the external auditor. He anticipated that less than 50% of local authority accounts would be signed off by Christmas. He was concerned that this delay would impact further on the arrangements for the 2021/22 accounts nationally
- Would there be any impact on the external audit fee as a result of the extra work involved with the preparation of this year's audit of Accounts? Peter Barber confirmed that there had been a lot of additional work required and therefore a further fee uplift of £7k was being proposed, subject to approval by the PSCAA. The final fee would be determined after the work on the Value for Money (VFM) audit had been completed
- When would the outcome of the VFM audit be reported to Committee? Peter Barber responded that due to the increased scope of VFM audit work, the Government had set the deadline to three months after the sign-off of the Accounts. He therefore anticipated that the VFM audit findings would be reported to the March 2022 Committee.

RESOLVED that:

- a) **The Updated Audit Findings Report at Appendix 1 be noted;**
- b) **The Final Accounts Pack at Appendix 2, including the Statement of Accounts for the financial year ended 31 March 2021, be noted;**
- c) **The Chairman, in consultation with the Vice-Chairman of the Committee and the Chief Financial Officer, be authorised to approve the Final Accounts Pack including the Statement of Accounts for the financial year ended 31 March 2021 at the conclusion of residual audit fieldwork and on the basis that that there are no material changes to the primary accounting statements reported at Appendix 2 (Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement);**
- d) **The Chief Financial Officer be authorised to sign the Letters of Representation on behalf of the County Council once the Final Accounts Pack is approved; and**
- e) **Subject to the approval of the Worcestershire County Council Statutory 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.**

623 Appointment of External Auditors (Agenda item 6)

The Committee considered a report on the appointment of External Auditors.

In the ensuing debate, the following points were made:

- In response to a query, Mark Sanders confirmed that the Worcestershire Treasurers Group had met and it was clear from this meeting that there was no appetite amongst partner councils for a joint procurement exercise to appoint an external auditor
- If the Council did decide to appoint its own external auditor, would it enable the Accounts to be signed off quicker? Rachael Hart advised that there were only a limited number of accountancy firms that provided this service and due to the technical nature of public sector accounts, those firms were experiencing difficulties in recruiting suitably qualified auditors. It was difficult to say whether a locally appointed external auditor would be able to provide a faster service but given the national picture, it was unlikely
- It would be beneficial in terms of consistency of approach if the County Council and all the local district councils had the same external auditor appointed
- Members of the Committee unanimously agreed that the opt in to the national auditor appointment scheme was the preferred approach for the appointment of external auditors.

RESOLVED that Council be advised that the opt in to the national auditor appointment scheme was the Committee's preferred approach for the appointment of external auditors on the basis of the reasons set out in paragraph 19 of the report.

624 Internal Audit Progress Report (Agenda item 7)

The Committee considered the Internal Audit Progress Report.

In the ensuing debate, the following points were made:

- Did the increased number of grants received from Government during the Covid pandemic represent an increased risk to the Council in terms of its grant certification process? Jenni Morris, Chief Internal Auditor advised that the Council worked closely with operational staff to ensure that the records were of sufficient quality to allow the sign-off of grant certification. Throughout the process, she had to be cognisant of the impact on the Council's finances should a grant certificate not be signed-off
- In response to a query, Jenni Morris undertook to provide more details in relation to the processes and audit arrangements for the Blue Badge Scheme in a future report
- In response to a query, Jenni Morris explained that the majority of fraud investigations were intelligence-led albeit there were also frauds detected as a direct result of audit work. The Council's fraud team

focused a lot of its work on fraud prevention. In particular, the team provided advice to colleagues working in high risk areas ensuring that they were aware of any risks and what issues to look out for

- Did the Council have a list of priority areas of concern from a fraud perspective? Jenni Morris advised that work was focused on areas of high risk, however there were areas which were perceived as a lesser risk but needed to be monitored to prevent the level of risk increasing. The two high risk areas were Adult Social Care and Procurement. Fraud in Adult Social Care was more frequent but involved lower sums of money. By contrast, procurement fraud was less common but tended to involve large sums of money
- In response to a query, Jenni Morris confirmed that the Fraud team did examine employee behaviour patterns to detect key indicators of potential employee fraud
- To what extent were the Framework arrangements examined for potential fraud? Jenni Morris commented that the Council's risk profile, contracts and performance indicators were examined by the fraud team. The Council's control regulations and how much it was being paid was also analysed. In particular, checks were carried out to ensure that the Council's procurement code was being adhered to. A key issue of concern was the life of a particular contract and the ongoing management of that contract, for example how the performance of the contractor was being reviewed and the controls that were in place for variations to that contract
- The Chairman welcomed the progress made in addressing the number of audit actions to the point where there were no outstanding audit actions over 12 months.

RESOLVED that the Internal Audit Progress Report be noted.

625 Finance Improvement Programme (Agenda item 8)

The Committee considered the Finance Improvement Plan.

In the ensuing debate, the following points were made:

- In response to a query, Mark Sanders indicated that at present budgets were automatically accrued and it was hoped that the move to a cashflow-based approach would act as a motivator to budget holders to better manage their budgets. The Council was looking at consolidating its procedures for raising orders so staff had all the necessary information available to them. In addition, the number of people involved in the raising of orders would be reduced to make the system more robust. It was important to get better financial systems in place at this stage, especially with the E5 system being improved, alongside better staff training and awareness
- The changes in the responsibilities for budget holders represented a cultural shift for the Council and might be a risk going forward. Mark Sanders responded that the proposed changes would act as a platform to enable budget holders to make decisions based on the best available information

- In response to a query, Mark Sanders commented that the approach the Council had to take to financial management was more complex than necessary for a commercial organisation, particularly in terms of securing payments. It was vital to ensure that the right people received the right information in a clear and robust fashion so that the budget holder was able to decide the most appropriate response
- Mark Sanders undertook to provide an appendix in future reports that linked the improvement programme to income and debt management. A report on the Finance Improvement Programme would be brought to every meeting.

RESOLVED that the report be noted and further updates be brought to the Committee during 2022/23.

626 Risk Management Report (Agenda item 9)

The Committee considered the Risk Management Report.

RESOLVED that the Risk Management report be noted.

627 Training Programme (Agenda item 10)

The Committee considered the Training Programme.

In the ensuing debate, the following points were made:

- It was proposed and agreed that an additional training session on procurement be introduced for July 2022 meeting
- Training sessions should be scheduled to start at 9.30am with the Committee meetings scheduled to start at 10.30am.

RESOLVED that the Training Programme as set out in paragraph 5 of the report be approved subject to an additional training session on procurement being included in July 2022.

628 Work Programme (Agenda item 11)

RESOLVED that the work programme be noted.

The meeting was adjourned from 11.30 to 11.35am ended at 1.15pm.

Chairman