

Minutes of the Audit and Governance Committee

County Hall, Worcester

Friday, 11 March 2022, 10.30 am

Present:

Cllr Aled Evans, Cllr Laura Gretton, Cllr Peter Griffiths, Cllr Adrian Hardman 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 3 December 2021 (previously circulated).

Cllr Laura Gretton, Vice-Chair in the Chair.

629 Apologies and Named Substitutes (Agenda item 1)

Apologies were received from Cllr Nathan Desmond, Cllr Luke Mallett and Cllr Dan Morehead.

Cllr Adrian Hardman substituted for Cllr Nathan Desmond.

630 Declarations of Interest (Agenda item 2)

None.

631 Public Participation (Agenda item 3)

None.

632 Confirmation of Minutes (Agenda 4)

RESOLVED that the Minutes of the meeting held on 3 December 2021 be confirmed as a correct record and signed by the Chairman.

633 Internal Audit Progress Report (Agenda item 5)

The Committee considered the Internal Audit Progress Report.

In the ensuing debate, the following points were raised:

- In response to a query, Jenni Morris explained that a three year rolling audit plan had been developed which replaced the existing annual audit plan process
- There was no indication in the report of the recurring themes associated with the audit of maintained schools. Jenni Morris responded that it had been intended to undertake a rolling programme of school audits but in discussions with Worcestershire Children First (WCF), the internal audit approach shifted to the provision of support to those schools that were in particular difficulty. Key themes associated with school audits related to deficit recovery plans, procurement and declarations/conflicts of interest. Internal Audit had made sure that relevant information was accessible to support schools for example via termly newsletters
- In response a request, Jenni Morris undertook to provide a breakdown of the deficits carried forward by individual local authority maintained schools to members of the Committee. It was a complicated process because some schools appeared to have a large deficit but on closer inspection the sums involved only represented a small amount of the school's overall budget. Overall, it was recognised that on occasion, schools could go into deficit during the school year but the key issue for schools was to have a plan to manage their finances. Internal Audit worked closely with the school team within WCF to address these issues. Steph Simcox added that at the end of period 9, 34 maintained schools were in deficit and 82 were in surplus
- It was queried how Internal Audit were made aware that a maintained school had gone into a deficit, and whether schools were provided with the necessary support to help them create an audit plan and address their deficit. Jenni Morris explained that Internal Audit would be notified by the WCF finance team. Schools in deficit were actively managed with regular meetings held with key Council officers to identify the necessary support for that particular school
- How were school deficits funded? Steph Simcox advised that at present, the totality of deficits and surpluses were merged together. This had not been a problem to date because surpluses had exceeded deficits but this was not a suitable long-term approach for managing the problem. A notional deficit/surplus was carried forward and linked to the deficit recovery plan for each school
- Did the Council have a clear understanding of the direction of travel of school deficits? Steph Simcox commented that there were individual and collective quarterly monitoring reporting arrangements in place for schools. As the year progressed, a clearer picture would emerge of an individual school's financial performance. It was important to identify trends and the reasoning behind the deficit, for example, a decrease in the number of children on roll which could have a significant impact on finances

- It was queried why an action related to legacy systems had remained open for 6-12 months. Jenni Morris advised that this action related to data ownership when a system was closed down. Work was ongoing with data managers to resolve this action and she anticipated that it would be completed by the end of the year
- In relation to a query about the outstanding actions for debt management of 3-6 months, Jenni Morris indicated that there had been significant improvements to the debt management systems since the service had returned in-house. It had been assessed as a limited assurance and therefore a follow-up audit was planned
- In response to a query, Jenni Morris confirmed that the volume of grant certifications had increased during Covid as the Government increased the number of grants to councils. It was difficult to assess the future levels of certification
- In response to a query about the progress of the audit of the Ringway contract, Jenni Morris stated that the terms of reference of the audit had been agreed and work had begun with operational managers to accumulate the necessary data. The operational team were under considerable pressure at the moment and therefore had been given more time to complete the audit work
- In response to a query about the Council's policies in relation to staff in multiple jobs, Jenni Morris advised that the Council had very clear policies for employees with second and multiple jobs. In line with those procedures, managers would take the appropriate action in consultation with human resources and the appropriate Assistant Director dependent on the grade of the employee and the type of alternative employment. The key aspect was to ensure that managers had the appropriate tools to effectively manage the situation and that any action taken was proportionate
- Did the Council have the option available to it to take litigation against employees who abused the multiple employment procedures? Jenni Morris responded that different approaches were applicable in different cases and the action taken needed to be commensurate. The option to take litigation was available to the Council but was expensive relative to the financial benefit to the Council. In all circumstances, managers would seek professional advice from officers in the human resources and legal teams
- Had staff 'working from home' been added as a risk on the Risk Register? Jenni Morris advised that the topic of 'working practices' was a standard category on the Register. The Council had been operating a limited practice of working from home for some time prior to the pandemic. Employment policies were kept under constant review.

RESOLVED that:

- a) the Internal Audit progress report be noted; and**
- b) A report on the schools auditing processes be brought to the meeting of the Committee on 2 December 2022.**

634 Statutory Accounts 2021/22 Progress, Accounting Policies and Estimates (Agenda item 6)

The Committee considered the Statutory Accounts 2021/22 Progress, Accounting Policies and Estimates.

In the ensuing debate, the following points were raised:

- Rachael Hart introduced the report and commented that the 2021 Statutory Accounts had been formally signed off by the external auditor with an unqualified opinion. The Council's Value for Money (VFM) Report had now been received and the external auditor had found no significant weaknesses
- In response to a query, Rachael Hart confirmed that the Council was well-advanced in the preparation of the 2021/22 Accounts. Due to the considerable challenges experienced in the preparation of last year's accounts, the Council had already completed some of the planning work and was on track to produce the final accounts in time for the Committee meeting in July 2022 ahead of the statutory deadline. Peter Barber from Grant Thornton, the Council's external auditor added that the level of challenge to auditing processes had increased over recent years. The level of challenge to last year's accounts was particularly high which left the Council in a good position in terms of the preparation work for this year's audit
- What key positive aspects could be taken from the 2020/21 accounting processes? Rachael Hart indicated that the Council now had a well-established and prepared set of audit evidence which left the Council able to respond to challenge. In addition, the finance team had worked well with strong accounting expertise and established a good working relationship with the external auditor.

RESOLVED that:

- a) The work in preparation for the 2021/22 Statutory Accounts be noted;**
- b) The accounting policies for 2021/22 be approved; and**
- c) The management arrangements to identify and evaluate accounting estimates be noted.**

635 External Auditor - Auditor's Annual Report 2020/21 (Agenda item 7)

The Committee considered the External Auditor - Auditor's Annual Report 2020/21.

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:

- Throughout the audit process, a good working relationship had been maintained with the Council's finance team
- The format of the VFM audit had changed for this year with a greater focus and more detail on the Council's overall arrangements. In addition, the Pension Fund had been included in the VFM assessment. The findings of VFM report were very positive despite a very challenging year for the Council, not least through the impact of Covid
- The Council had appropriate arrangements in place for financial sustainability, governance and economy, efficiency and effectiveness in its use of resources and despite the challenging year had managed to achieve a small surplus. It was found that the Council's budget had the appropriate strong links to the corporate plan. The Council had a good understanding of its financial position and actions being taken
- There remained some funding gaps to resolve going forward but these were no different from other councils
- Capital funding had fallen largely as a result of the impact of Covid on the capital programme
- The Council had adequate levels of reserves in place and a strategy to mitigate financial risk. A recommendation had been included in the report for the Council to review the MRP charge to ensure it met the statutory guidance and that sufficient resource was made available to support future debt payments
- In relation to risk management, a recommendation had been included in the report for the Council to ensure that all remaining actions were implemented, including a review of effectiveness
- Having spoken to a range of officers and members, it was clear that the Council had a good understanding of economy, efficiency and effectiveness.

In the ensuing debate, the following points were made:

- How would the Council be responding to the external auditor's recommendation to review the MRP charge? Rachael Hart advised that the issue had arisen following audit challenge of the deemed useful life which informed the MRP calculation; a useful life of 90 years had been used by the Council compared with a useful life estimated by the external auditors of 50 years. The financial impact of the difference in estimates in 2020/21 was £2.1m and was therefore immaterial. However, the calculation would be reviewed accordingly going forward
- The Chair acknowledged that this was the last meeting that Peter Barber and Helen Lillington would be presenting the external accounting arrangements to the Council on behalf of Grant Thornton as their roles in Grant Thornton had changed. She thanked them both for their work in supporting the production of this Council's accounts over many years. Peter Barber thanked members of the Committee for their support but in particular, Mark Sanders, who was leaving the Council, for all his help in preparing the Accounts over a number of years.

RESOLVED that the Annual Audit Report 2020/21 as set out in Appendix 1 to the report be noted.

636 Internal Audit Plan 2021 to 2022/23 - 2022/23 Focus (Agenda item 8)

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

In the ensuing debate, the following points were raised:

- Jenni Morris introduced the report and commented that following a review, the audit process had changed from an annual review including 40-50 individual audit activities to a quarterly planning approach based on key themes. The revised approach would allow officers to respond to key issues more quickly. The follow up on actions and overall management of the process was vital for its effectiveness. If operational managers failed to undertake a particular audit action, she would recommend that the appropriate Strategic or Assistant Director be called before the Committee to explain their why the appropriate action had not been taken
- Concern was expressed about how quarterly performance would be reported to the Committee. Jenni Morris advised that detailed information would be provided to the Committee on what audit work had or had not been completed. It was also acknowledged that risks did not disappear at the end of a financial year so it was important to determine how risks would be managed into future years
- In response to a query, Jenni Morris indicated that in some cases there was no natural end to a particular audit process and it was important not to lose sight of these audits
- The challenge for internal audit appeared to be ensuring operational managers took ownership of their audit actions and addressed them in a reasonable timeframe. Jenni Morris responded that there was a clear timeframe for operational managers to respond to audit actions. If a manager was unable or unwilling to address an action then this Committee needed to understand the reasons.

RESOLVED that:

- a) **The Internal Audit Plan focus 2022/23 and Audit Charter be approved; and**
- b) **The relevant Strategic/Assistant Director be invited to address the Committee where a failure to satisfactorily address outstanding audit actions has been identified.**

637 Risk Management Report (Agenda item 9)

The Committee considered the Risk Management Report.

In the ensuing debate, the following points were raised:

- Jenni Morris introduced the report and commented that the key themes identified in the Risk Register related to recruitment and retention of staff, and environment, notably flood risk. However, it should be noted that the Council's risk profile changed on a continual basis
- It was requested that that future Risk Management reports set out greater detail of the key risk management themes and provided a list of the most fundamental risks.

RESOLVED that the Risk Management report be noted.

638 Finance Improvement Programme (Agenda item 10)

The Committee considered the Finance Improvement Programme.

In the ensuing debate, the following points were raised:

- In response to a query, Mark Sanders indicated that the Council had multiple systems for receiving income. Steph Simcox added that corporate project had been convened led by the Assistant Director for IT and Digital and consisting of key officers from across the Council to understand how people paid for services provided by the Council and how the processes could be made easier for all concerned
- It was requested that Committee members be provided with details of the number of Point of Sale (POS) systems maintained by the Council.

RESOLVED that the report be noted and further updates be brought to the Committee meeting in September 2022.

639 Work Programme (Agenda item 11)

The Committee considered its work programme.

In the ensuing debate, it was considered appropriate to bring the report on the schools auditing processes to the Committee meeting on 2 December 2022.

The Committee noted that this was the last meeting that Mark Sanders would be attending before he left to take a job elsewhere and thanked him for his contribution over many years. A special note of thanks to Mark from the absent Chairman was read out to the Committee.

RESOLVED that the work programme be noted subject to a report on the schools auditing processes being brought to 2 December 2022 Committee meeting.

The meeting ended at 12.25pm

Chairman