

Minutes of the Audit and Governance Committee

County Hall, Worcester

Friday, 22 July 2022, 10.30 am

Present:

Cllr Nathan Desmond (Chairman), Cllr Laura Gretton, Cllr Luke Mallett,
Cllr Dan Morehead and Cllr Emma Stokes

Available papers

The members had before them:

- A. The Agenda papers (previously circulated);
- B. Annual Governance Statement 2021/22 Action Plan (circulated at the meeting);
- C. Top Customers (by value) – Including Top 30 ‘At Risk’ Debts (exempt information) (circulated at the meeting); and
- D. The Minutes of the meeting held on 11 March 2022 (previously circulated).

640 Apologies and Named Substitutes (Agenda item 1)

Apologies were received from Cllrs Salman Akbar, Aled Evans, and Peter Griffiths.

641 Declarations of Interest (Agenda item 2)

None.

642 Public Participation (Agenda item 3)

None.

643 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 11 March 2022 be confirmed as a correct record and signed by the Chairman.

644 2021/22 Internal Audit Annual Report (Agenda item 5)

The Committee considered the 2021/22 Internal Audit Annual Report.

Jenni Morris, the Internal Auditor introduced the report and highlighted the following points:

- Governance and Control Framework – The Council had a plethora of policy documents of which a number were out of date. The Governance and Control framework was too reliant on the knowledge and experience of staff who understood which policies were relevant. This was a concern given the recent turnover of experienced staff. In this respect, the current constitution was not fit for purpose
- Although good progress was being made with action resolution, there remained a number of overdue actions, most notably relating to individual schools
- Recruitment and retention had been identified as a high-risk theme during the 2021/22 audit work. As a result, an audit of the recruitment process had been commenced. This involved an in-depth review of the processes associated with starters and leavers to evaluate the effectiveness of the risk mitigations put forward by relevant service areas. The review would cover the operational, HR and IT aspects of recruitment and retention

In the ensuing debate, the following points were made:

- Was CIPFA training required or provided to all newly recruited Internal Audit staff? Jenni Morris advised that although CIPFA was an optional qualification for starters, it was not necessary for some posts as other qualifications were considered more appropriate
- In response to a query about the prioritisation of school audit actions, most notably North Bromsgrove High School (NBHS), Jenni Morris explained that all actions were treated the same irrespective of how old they were. As a result of potential academy conversion, there had been a delay in Internal Audit being able to revisit NBHS the year after the Limited Assurance finding, which was an internal audit requirement
- In response a query, Jenni Morris indicated that Chaddesley Primary School had outstanding audit actions in relation the auditing of temporary staff appointments and their approach to the recording of decision-making. The school had not been forthcoming in carrying out those actions. Internal Audit were therefore liaising with the School Improvement Team to improve matters
- It was clear that there had been significant changes made to Internal Audit from a cultural perspective. However, there remained challenges in relation to improving the Control and Governance framework, especially in relation to schools and updating the constitution
- Jenni Morris commented that generally the internal audit work with schools had been effective with the School Support Forum having a useful role in identifying schools that were a cause for concern. If necessary, Internal Audit would liaise with the School Improvement

Team to address issues because they tended to have greater contact with schools. Internal Audit also worked closely with the finance team and governor support team. Internal Audit did not have any particular power in relation to schools and therefore it was a case of trying to get schools to understand the importance of this work. The issues experienced in schools were symptomatic of wider control issues in the Council. Michael Hudson emphasised the important role of the School Support Group and the school finance team in identifying risks and feeding information back to colleagues.

RESOLVED that the Internal Audit 2021/22 Annual Report and assurance level be agreed.

645 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.

Mark Stocks, Key Audit Partner and Terry Tobin, Senior Audit Manager from Grant Thornton, the Council's external auditors introduced the report.

In the ensuing debate, the following points were made:

- Had remote working impacted on the process of the auditing of accounts? Mark Stocks explained that remote working had not been an efficient or effective way of working. It was time-consuming which had been reflected in the increased external audit fee. This fee increase was also intended to encourage councils to end remote auditing practices. It was important that external auditors were able to work on site and interact face-to-face with the Council's finance team. Michael Hudson welcomed the return to on-site audit work because it enabled a speedier turn-around of queries/information between the external auditor and the finance team than was possible working remotely. The finance team had been working and would continue to work face-to-face with external audit and this had been reflected in the external audit fee
- In relation to a query about the valuation of the Energy from Waste plant, Michael Hudson explained that a technical issue concerning how PFI Credits were recorded in the accounts had been raised nationally by Grant Thornton
- Mark Stocks explained that following a series of corporate failures, there had been an increase in the auditing expectations placed on councils. Grant Thornton placed great importance on the accuracy rather than timeliness of the accounts. Public sector accounts were incredibly complex in nature which meant that they were time-consuming and therefore costly to audit
- The proposed changes to the accounting treatment and disclosure of infrastructure assets in the financial statements had huge implications for top-tier authorities in terms of additional work, cost and delays to the accounting timetable. What happens if the current national rulings on the application of IFRS requirements on the treatment of Infrastructure

assets meant that these changes went ahead? Mark Stocks advised that Grant Thornton had made representations nationally to try to avoid this scenario.

- What benefits did the changes to the accounting treatment of infrastructure assets provide for the Council? Michael Hudson responded that there would not limited benefit to the Council and certainly not VFM. The Council was prepared to do the work and staff would be made available, but the Council did not have the necessary data available. There were two possible outcomes should the proposed changes be introduced, either a delay of the signing off of all the accounts including the pension fund and district councils which would mean that the deadline would be missed; or a qualification be granted for upper tier authorities. It was estimated that to gather the data for the audit of infrastructure assets would cost the Council approximately £40/50k which would greatly increase if these arrangements were back-dated. It was agreed that it appeared this change was a technical auditing issue that had no impact/benefit to the council tax payer. It was important that the sector stuck together to challenge this change
- What was the timetable for the IFRS to make a decision on the changes to the auditing arrangements for infrastructure assets? Mark Stocks commented that CIPFA, rather than the IFRS were the code setters. Dependent on the national ruling, CIPFA would be left with the following options: either accept the changes; move to qualification; or request a statutory override by the Government
- In response to a query about cyber security, Terry Tobin commented that there were no issues with this Council's accounting arrangements. It should be recognised however that nationally greater attention was being given to cyber security.

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

646 Draft Annual Governance Statement 2021/22 (Agenda item 7)

The Committee considered the draft Annual Governance Statement 2021/22.

The Annual Governance Statement 2021/22 Action Plan was circulated at the meeting.

In the ensuing debate the following points were made:

- Michael Hudson stressed the importance of the Annual Governance Statement in giving Council the required assurance level on the Council's governance arrangements. In particular, the Council's constitution was in need of review in terms of names changes/terminology, policies being contradictory or out of date, and whether it remained fit for purpose for example in terms of officer delegation levels

- Michael Hudson indicated that the AGS action plan would be uplifted to the Council's web site and updates would be provided to Committee on a quarterly basis
- The Committee had an important role in holding officers to account in terms of the effectiveness of the Council's Control and Governance Framework. Jenni Morris added that Internal Audit would also be checking progress.

RESOLVED that the draft Annual Governance Statement 2021/22 be noted.

647 Draft Annual Statutory Financial Statements for the year ended 31 March 2022 (Agenda item 8)

The Committee considered the draft Annual Statutory Financial Statements for the year ended 31 March 2022.

In the ensuing debate, the following points were made:

- Michael Hudson thanked the finance team for their work in producing the Statement of Accounts. Two key members of staff had left the team for promotional opportunities and should be thanked for their work – Rachael Hart and Sharon Johnson. Michael Hudson noted that Chris Bird had subsequently been appointed to the position of Chief Accountant
- The Chairman welcomed the small underspend recorded in the accounts which was a significant achievement given the difficult financial circumstances faced by the Council. He thanked the finance team on behalf of the Committee for their work
- The changes made to legislation which meant that greater SEND intervention was necessary which had potentially severe financial implications for this Council. Michael Hudson explained that there were a number of authorities going through a detailed review process for SEND with the DfE and 55 authorities (including this Council) that were the subject of a best value review. The Council was currently in discussions with the DfE about its SEND arrangements. The outcome of these discussions was important in terms of how the potential £19m cost implication for the Council would be funded as well as any legacy implications of the legislation, or whether the issue would continue to remain unresolved. A further update should be available for the December Committee.

RESOLVED that the draft Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2022, be noted.

648 Internal Audit Progress Report (Agenda item 9)

The Committee considered the Internal Audit Progress Report.

In the ensuing debate, the following points were made:

- Jenni Morris indicated that although no instances of fraud had been identified in the Council during the last quarter, an IIA report had indicated that the current economic climate had raised the fraud risk nationally. This came about as a result of the fraud triangle, when people had motivation (cost of living crisis), opportunity (the need to strengthen governance arrangements) and could rationalise their behaviour (following the example of high profile public figures)
- Jenni Morris explained that Andy Bromage the Chief Internal Auditor of the Worcestershire Internal Audit Shared Services would be acting in the statutory role of Internal Auditor for the Council for two days a week on her departure and provide formal support to the Audit and Compliance Manager, who would manage the audit service on a day-to-day basis. Michael Hudson added that it was opportune for the Council to join the shared services internal audit arrangements at this stage with a view to looking at the possibility of creating a One Worcestershire approach to Internal Audit. Andy Bromage would be reporting on the proposed approach to this Committee in December.

RESOLVED that the Internal Audit progress report be agreed.

649 Risk Management Update (Agenda item 10)

The Committee considered Risk Management Update.

In the ensuing debate, the following points were made:

- A suggestion was made that a member risk champion for the Council be established
- It was queried why the Risk Management report did not include a full RAG rated list of risks. Jenni Morris responded that previous reports had included a comprehensive RAG rated list. However, this approach meant that the focus of the Committee was on same risks over at each meeting over which the Council tended to have little control. It was therefore decided to concentrate on key risk areas which needed the Committee's attention
- It was important that the Committee understood how the Council intended to review its approach to risk management and this should be reported to the September meeting.

RESOLVED that:

- a) The Risk Management update be noted; and
- b) The Risk Management report to the September Committee to include details of how the Council intended to review its approach to risk management.

650 Income and Debt Monitoring (Agenda item 11)

The Committee considered the Income and Debt Monitoring report.

A list of the Top Customers (by value) – Including Top 30 ‘At Risk’ Debts (exempt information) was circulated.

In the ensuing debate, the following points were made:

- In response to a query, Michael Hudson explained that the length of time taken for the billing of clients had an impact on the level of debt less than 30 days. The key issue for the Council was the date that the debt originated
- It was requested that an item be added to the September Committee agenda to specifically examine issues associated with debt monitoring in Adult Social Care. The Strategic Director for People should be invited to attend the meeting to explain the process
- Did the Council raise legal charges against debts? Jenni Morris advised that charges were raised against the long-term debts
- The key issue for the Council was to prevent the initial debt from escalating from the outset. Jenni Morris added that social workers had an important role in advising clients about potential service costs thus preventing the debt arising.

RESOLVED that:

- a) **The Income and Debt Management report be noted and the continued actions to recover all debt be supported; and**
- b) **An item be added to the September Committee agenda to specifically examine issues associated with debt monitoring in Adult Social Care. The Strategic Director for People be invited to attend the meeting.**

651 Work Programme (Agenda item 12)

Michael Hudson indicated that following a number of high-profile Council auditing failures, the Government had expressed the need to continue to review the role of audit committees. This included options to introduce independent members for Audit Committees by 2028. This review had implications for the committee member training. A review of the member training programme was therefore being undertaken and would be reported back to the Committee.

RESOLVED that the work programme be noted with the addition of an item on Debt Monitoring in Adult Social Care to the September Committee meeting.

The meeting ended at 1.00pm.

Chairman