

Minutes of the Audit and Governance Committee

Lakeview Room, County Hall, Worcester

Friday, 1 December 2023, 10.30 am

Present:

Cllr Nathan Desmond (Chairman), Cllr Salman Akbar, Cllr Laura Gretton, Cllr Peter Griffiths, Cllr Matt Jenkins 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 22 September 2023 (previously circulated)

715 Apologies and Named Substitutes (Agenda item 1)

Apologies were received from Cllrs Luke Mallett and Dan Morehead.

716 Declarations of Interest (Agenda item 2)

None.

717 Public Participation (Agenda item 3)

None.

718 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 22 September 2023 be confirmed as a correct record and signed by the Chairman.

719 External Audit Findings Report 2023/23 (including Pension Fund) (Agenda item 5)

The Committee considered the Statutory Accounts and Pension Fund 2022/2023 - External Audit Findings Report.

Mark Stocks and Terry Tobin, representatives of Grant Thornton, the Council's external auditor introduced the report and made the following points:

- It was expected that the small number of outstanding issues would be addressed before Christmas for both sets of Accounts
- An adjustment to the Accounts was recommended with regard to property valuation albeit the figure was not material in nature. This was a particularly complex area to assess because many of the Council's assets were not on the open market and therefore difficult to value
- The impact of RAAC on the value of County Hall was being worked through
- The actuary had advised that the defined benefit surplus as an asset on the Council's balance sheet should be restricted to zero. This had originally been identified in the draft accounts as an £31.8m asset. This adjustment had been made to the revised financial statements
- Subject to the resolution of outstanding issues, it was anticipated that an unqualified audit opinion would be issued for the Council's Accounts
- The Council's processes for the management override of assets had been examined. In particular, the Council's journals had been tested and no issues found. The Council did not have an in-system authorisation process for journals which had been recognised as a risk at the Audit Planning stage
- Pension Fund Accounts – The Pension Fund Audit of Accounts had been completed but could not be signed off until the Council's Accounts were ready for sign off. Valuation of Level 3 Investments and Management override of Controls had been identified as significant risks but no issues had been found. It was anticipated that an unqualified audit opinion would be issued for the Pension Fund Accounts.

In the ensuing debate, the following points were made:

- The amount of waste processed by the EfW at Hartlebury was decreasing and this would be further impacted by proposals to separate food waste collections. As a result, the plant would be generating less energy. Would this have implications for the asset value? Chris Bird, Chief Accountant advised that specialist valuers were assessing the impact of the current and expected use of the plant on the value of the asset. Their final report would be examined and reported to Committee in due course
- What processes could be put in place to mitigate the risk associated the Council's journal processes? Terry Tobin responded that although it was a common issue amongst councils, this Council would require a move to a new ledger. Chris Bird added that the Council was looking at introducing an evidence and reporting mechanism to detect erroneous transactions. Given the number of journals required to be tested by the external auditor, a long-term solution would need to be found including a means of journal authentication. Mark Stocks added that it was recognised as a risk because should an issue arise, it would cause the Council great difficulty

- In response to a query about access rights to journals, Chris Bird explained that there were different levels of access rights to journals dependent on the officer level within the organisation
- The Chairman welcomed the anticipated issuing of an unqualified opinion on both sets of Accounts
- Members agreed that there were no issues that required a further report to Committee and no issues to draw to the attention of Council.

RESOLVED that:

- a) The Audit Findings Reports 2022/23 for Worcestershire County Council as set out in Appendix 1 and Worcestershire Pension Fund as set out in Appendix 2 be noted; and**
- b) There are no issues arising from the Report to draw to the attention of the Council.**

720 Update on Annual Statutory Financial Statements for the year ended 31 March 2023 (Agenda item 6)

The Committee received an update on Annual Statutory Financial Statements for the year ended 31 March 2023.

In the ensuing debate the following points were made:

- In response to a query, Chris Bird indicated that the outstanding issues identified by the external auditor were not significant and should be resolved without the need for a further report to Committee
- In response to a query, Mark Stocks commented that very few top tier authorities had signed off their accounts by the statutory deadline. He did anticipate that a number of council would have their accounts signed off before Christmas. He confirmed that the Value for Money Audit would be made available in a couple of weeks
- It was requested that in future a clearer explanation together with background information be provided in the cover report in relation to any changes to the draft version of the Accounts.

RESOLVED that:

- a) The listed amendments from the Draft Accounts Pack published in May 2023 be noted;**
- b) 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 2023, at a later date subject to receipt of the Audit Opinion;**

- c) **If b) above cannot be followed through and instead a special meeting of the Committee be convened to sign off the Statement of Accounts; and**
- d) **The Chief Financial Officer be authorised to sign the Letters of Representation on behalf of the County Council.**

721 Internal Audit Progress Report (Agenda item 7)

The Committee considered the Internal Audit Progress Report.

Andy Bromage, Chief Internal Audit Officer introduced the report and commented that he would meet the Chairman of the Committee to discuss an updated approach to reporting Internal Audit progress before reporting to Committee in due course.

In the ensuing debate, the following points were made:

- Did the external auditor have an oversight of the grant certification process? Andy Bromage responded that the external auditor had a holistic view of the process as part of the external audit arrangements
- Had geography been an issue with regard to the actions arising from audits at Cleeve Prior Primary School and Blackminster Middle School? Andy Bromage indicated that geography had not been highlighted as an issue in the risk profile. A number of recommendations had emerged from the audit work and these were being worked through with the schools
- Were there any risks that could impede the work of internal audit? Andy Bromage responded that internal audit was now fully staffed so that was no longer a risk. He anticipated that the 2023/24 audit plan would be completed in full as indicated in Appendix 1.

RESOLVED that the Internal Audit progress report be agreed.

722 Risk Management (Agenda item 8)

The Committee considered the Risk Management report.

Rob Morris, Head of Business Intelligence introduced the report and made the following points:

- The risk reporting arrangements were still in their infancy and there remained a few issues to sort out
- The Corporate Risk Management Strategy should be signed off before the next Committee meeting and this would help to formalise the Council's approach to risk management
- The total number of risks had grown in the last quarter. This was not unusual and did not give cause for concern
- A further two risks had been added to the list of corporate risks

- It was unlikely that exception reporting would vary widely between Committee meetings because any changes tended to be slow in nature
- A risk had been added in relation to outbreaks of human disease (epidemic or pandemic). The plans and strategies for dealing with the Covid pandemic had been stood down but the risk of a further outbreak remained therefore it remained an ongoing risk
- The cold weather alert had been included as an amber risk. As the winter progressed, it was a risk that would be monitored and any change would be reported to the Committee.

In the ensuing debate, the following points were made:

- In response to a query, Rob Morris commented that the budgetary pressures facing the Council meant that there were significant controls and actions to reduce in-year spend. Until the Council received the settlement from the Government and Cabinet agreed the 3-year financial strategy, the Financial Instability risk would remain unchanged
- What impact had the discovery of RAAC at County Hall had on business continuity? Rob Morris explained that all affected staff had been reassigned to new office space and no officers had been forced to work from home so there had been no impact on business as usual. A range of options were being considered to address the issue of RAAC in the building but he was not in a position to update the Committee at this stage
- The Chairman requested that the Committee be provided with a more detailed update on the plans to address the issues associated with RAAC at County Hall at the next Committee meeting in March 2024
- A concern was expressed that the risk of councillors not conducting themselves in an appropriate manner had been assessed as high likelihood and high impact. Hazel Best, Assistant Director for Legal and Governance responded that this area would continue to be assessed as high risk. There would be a high impact for the Council if a member failed to declare a DPI which could lead to a criminal offence. The mitigation for the Council was for councillors to receive training and the Monitoring Officer to provide advice to councillors on the declaration of DPIs. A failure to declare a DPI could also lead to a data protection breach which was also a high impact. She would liaise with Rob Morris to discuss whether the scoring assessment of the likelihood of this risk occurring could be lowered
- Code of Conduct training for councillors was an important mitigation measure but there did not appear to be regular councillor training sessions or mandatory training for all councillors following council elections. Hazel Best responded that with the agreement of the Standards and Ethics Committee, she was undertaking a review of the training programme for councillors with the intention of introducing annual refresher training. There should be mandatory training for all councillors after council elections. A training session on the new Code of Conduct would be provided to all councillors
- The Chairman requested that an update report on the proposed Code of Conduct for members training plan be brought to the next Committee meeting in March 2024.

RESOLVED that the contents of the report, including the latest corporate risk report identifying corporate risks and mitigating activity be noted.

723 Treasury Management Update Quarter 2 2023-24 (Agenda item 9)

The Committee received the Treasury Management Update Quarter 2 2023-24.

In the ensuing debate, the following points were made:

- In response to a query, Sherief Loutfy, Head of Financial Planning and Pensions Investment explained that the expected additional borrowing forecast for 31 March 2024 of £576m related to the latest Capital Programme update. These borrowing arrangements were separate from the short-term borrowing requirements to satisfy the Council's cashflow position
- In response to a query about the Council's approach to short term borrowing, Denis Arman, Treasury Manager advised that at present, high interest rates made it expedient to use short-term borrowing however if the interest rate dropped below 3% then long-term borrowing would be considered as a preferable option
- 18% of the Council's loans were due to mature. Had the Council got plans to pay or re-finance these loans? Sherief Loutfy advised that the Council's approach depended on its needs, for example whether further funding was required to satisfy the capital programme
- Had the level of overall debt remained the same over recent years? Sherief Loutfy responded that 3-4 years ago, the Council had undertaken more internal borrowing, using reserves. However recently, the need for external borrowing had increased albeit not to such an extent that would be of concern to the Council. He would provide a graph in future reports to show the pattern of debt levels over recent years
- In response to a query about the impact of rising interest rates on the financing debt and the cost of borrowing, Sherief Loutfy explained that a budget of £4-5m had been set aside for the cost of borrowing which took account of a number of factors, not just interest rates.

RESOLVED that the Treasury Management Update to the end of September 2023 Report 2023-24 be noted.

724 Work Programme (Agenda item 10)

Simon Lewis introduced the report and commented that

In the ensuing debate, the following points were made:

- Simon Lewis. Committee Officer advised that the training session on financial sustainability and the impact on the accounts postponed from this meeting would be rearranged prior to Committee meeting on 8 March 2024. The training sessions would then be rearranged as follows: Internal Audit – 19 July; and Business Continuity – 20 September. As the Committee had recently received a training on Risk Management, the session on 20 September 2024 would be replaced by training on Business Continuity
- In response to a request, Hazel Best, Assistant Director for Legal and Governance would look at the possibility of providing a Committee report on RIPA to the March Committee meeting.

RESOLVED that the work programme be noted.

The meeting ended at 12.25pm.

Chairman