

Minutes of the Audit and Governance Committee

Lakeview Room, County Hall, Worcester

Friday, 8 March 2024, 10.30 am

Present:

Cllr Nathan Desmond (Chairman), 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 1 December 2023 (previously circulated)

725 Apologies and Named Substitutes (Agenda item 1)

Apologies were received from Cllrs Salman Akbar, Laura Gretton, Luke Mallett and Dan Morehead.

726 Declarations of Interest (Agenda item 2)

None.

727 Public Participation (Agenda item 3)

None.

728 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 1 December 2023 be confirmed as a correct record and signed by the Chairman.

729 External Audit - Auditor's Annual Report 2022/23 (Agenda item 5)

The Committee considered the External Auditor's Annual Report 2022/23.

Mark Stocks, Key Audit Partner from Grant Thornton, the Council's external auditor introduced the report and made the following points:

- The Council's Statement of Accounts 2022/23 had been signed off by the external auditor in December 2023
- The Council was well-run but in terms of the Council's financial sustainability, there remained a number of pressures and challenges going forward which resulted in the Council drawing on its reserves. This was generally seen as a red flag by external auditors because the reserves were too low for an organisation of this size
- The uncertainty around the Dedicated Schools Grant deficit balance was an issue for the Council. If the statutory override was not extended by the Government or financial support forthcoming to reduce the financial deficit, it would place additional significant pressures on the Council's reserves
- The Council needed to be aware of the Capital Programme affordability risk due to increasing costs and additional pressures of programme slippage
- In terms of the Council's governance arrangements, it was recognised that appropriate structures were in place however the Council's risk management arrangements were in need of improvement. A good relationship had been established with the Council's Internal Audit team. The main issue was that the team was not at full strength. Risk management and internal audit were the Council's key risk mechanisms.

Phil Rook, Chief Financial Officer made the following points in response to the External Auditor's Annual Report:

- He thanked Mark Stocks and his team for their Annual VFM report which he considered to be a fair reflection of the Council's position
- The Council had improved its capital strategy processes and was prioritising resources and minimising the drain on capital
- The organisational restructure would help the Council address its financial, governance and future challenges
- The current financial pressures facing the Council placed additional importance on ensuring the effectiveness of this Committee
- Internal Audit would work closely with Grant Thornton to improve dialogue going forward.

In the ensuing debate, the following points were made:

- What measures did the Council need to take to address those areas that had been given a red auditor ratings so that they reduced back to an amber rating? Mark Stocks advised that the key element was being able to set a balanced budget that did not rely on the use of reserves and the ability to determine what was a reasonable level of resources for the council to maintain. In addition, risks needed to be reported in a way that enabled members to understand, were a true reflection of the organisation and reflected what needed to change. The risk assessment

needed to feed into the Internal Audit Plan and action taken accordingly. The ability to obtain appropriate information was key

- The Chairman agreed that the report represented a fair reflection of the Council's position. It was a very challenging period for all top tier authorities faced with budgetary pressures due to circumstances out of their control. He recognised that the Council had not got a grip on how it managed risk and the Committee had previously expressed concern about the pace of change. He considered that the Committee Minutes had not previously reflected the concerns expressed by members. He recognised the capacity issues experienced by Internal Audit but noted the plans in place to address the concerns expressed by the external auditor. He requested that an update on the savings made against the budget be reported as a standard item to future Committee meetings
- The current savings target was the biggest the Council had ever faced with a structural deficit of £35m. It was therefore possible that the Council's reserves could reduce further to the point where the Council could no longer afford to fund non-statutory services. Mark Stocks responded that the Council was facing difficult challenges and decisions. From an external audit point of view, ensuring financial sustainability was absolutely key whether or not that included the provision of non-statutory services
- In response to a query, Phil Rook emphasised the important role of this Committee played in addressing issues of governance and financial Sustainability. The Chairman added that the Committee should examine the savings made against the budget and hold the relevant Strategic Director and/or Cabinet Member to account.

RESOLVED that:

- a) The Annual Audit Report 2022/23 as set out as an Appendix be noted;**
- b) An update on the savings made against the budget be reported as a standard item to future Committee meetings; and**
- c) There are no issues arising from the Report to draw to the attention of the Council.**

730 Statutory Accounts 2023/24 Progress, Accounting Policies and Estimates (Agenda item 6)

The Committee considered the Statutory Accounts 2023/24 Progress, Accounting Policies and Estimates.

In the ensuing debate, the following points were made:

- In response to a query about the impact of RAAC at County Hall on the Accounts, Chris Bird, Chief accountant explained that an adjustment had been made to last year's Accounts accordingly. Phil Rook added that part of the problem was that the repair of the roof may not enhance the value of the building or extend the economic life of the asset. It was

quite a technical issue and once the cost of the repairs was known, strategic decisions would need to be made as to how to address and fund it

- In response to a query about accounting periods and in particular reference to period 13 in the report, Chris Bird explained that period 13 referred to the window at the beginning of April before period 1 when the Finance team made any necessary financial adjustments.

RESOLVED that:

- a) The work in preparation for the 2023/24 Statutory Accounts be noted;**
- b) The accounting policies for 2023/24 be approved, and;**
- c) Management arrangements to identify and evaluate accounting estimates be noted.**

731 External Audit - Council and Pension Fund Audit Plans and Informing the Audit Risk Assessment (Agenda item 7)

The Committee considered the External Audit - Council and Pension Fund Audit Plans and Informing the Audit Risk Assessment.

Peter Barber, Key Audit Partner for Grant Thornton, the Council's external auditor introduced the report and made the following points:

- Grant Thornton had determined planning materiality to be £16.5m for the group and £16.4m for the Council which equated to 1.5% of the Council's prior year gross operating costs for the year. Anything above that figure or had been identified as a significant risk would require a deep-dive exercise
- Reporting of the VFM external audit findings would be brought forward in future years with the intention to complete by the end of September
- The fee for the external audit work was set by the PSAA and would be increasing by approximately double the amount paid last year. As a result there was an expectation from the PSAA that deadlines for the publication of Accounts would be met. It was anticipated that this Council's Accounts would be completed by the end of September 2024
- Julie Masci would be replacing Terry Tobin as the auditor responsible for auditing the Council's Pension Fund on behalf of Grant Thornton. The fees for the audit work on the Pension Fund would also increase next year from £57k to £90k.

In the ensuing debate, the following points were made:

- In response to a query about how single items over £16.4m would be recorded on the balance sheet, Peter Barber explained that checks would be made to establish how that expenditure was allocated within the ledger to ensure that it was allocated to the right headings

- In response to a concern raised about the significant increase in external audit fees, Peter Barber advised that fees had been kept artificially low over a number of years. The quantity of external audit work necessary had grown exponentially over time and this was now reflected in the latest audit fee. Phil Rook added that public sector accounts had become more complex in nature. The scale fees had been set nationally. Grant Thornton had provided a good service to the Council and as a result this Council was not caught in the backlog of Accounts sign-offs experienced by many other councils
- Would the fee increase resolve the external audit capacity issue experienced nationally? Peter Barber responded that it would help but not resolve the issue. The problem was the lack of availability of staff with the right skills set. Firms were struggling to recruit staff and looking at overseas recruitment. As a result some firms had left the market. Attempts were being made to make the auditing process more efficient and bring deadlines forward.

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

732 Update on Action Plan for Review of the Council Constitution (Agenda item 8)

The Committee considered the update on Action Plan for Review of the Council Constitution.

Hazel Best introduced the report and commented that the Member/Officer Relations Protocol would be reported to the next meeting of the Standards and Ethics Committee on 24 April before final approval at full Council on 16 May 2024. The Contract Standing Orders and Financial Regulations would be reported to this Committee on 6 June before final approval at full Council on 11 July 2024. Due to the changes set out in the Organisational Redesign Programme, the scheme of assignment of responsibility for functions, would have to be reviewed following the senior management redesign programme.

In the ensuing debate, the following points were made:

- The Chairman noted the proposed timescale and understood the reason for the delay of the work on the scheme of assignment of responsibility for functions. However, he was keen that there were no further delays to the proposed timetable
- Phil Rook indicated that work on a refresh of the Annual Governance Statement was underway.

RESOLVED that the action plan for the review of the Council constitution for 2023/24 be noted.

733 Internal Audit Progress Report 2023/24 (Agenda item 9)

The Committee considered the Internal Audit Progress Report 2023/24.

In the ensuing debate, the following points were made:

- Following a number of concerns expressed by members of the Committee, Andy Bromage, Chief Internal Auditor undertook to review the reporting of the key National Fraud Initiative (NFI) matches so that it was clearer for councillors to understand and provided a clear indication for when matches had been formally signed off
- In response to a query, Andy Bromage explained that the delay of the implementation of the audit finding for the Net Zero Carbon Plan had been to allow officers and members time to fully review the finding
- It was queried why school audits had been assessed as high risk. Chris Bird responded that school budgets were operated in a less visible way on a day-to-day basis which therefore increased the risk. Phil Rook added that Headteachers and their governing bodies were responsible for their auditing arrangements. If they did not comply, the Council could remove this delegation
- The Chairman welcomed the new and improved Internal Audit reporting report.

RESOLVED that the Internal Audit progress report be agreed.

734 Internal Audit and Counter Fraud Plan 2024/25 (Agenda item 10)

The Committee considered the Internal Audit and Counter Fraud Plan 2024/25.

Andy Bromage introduced the report and commented that the Plan examined how risks linked into the Council's strategic objectives. It was anticipated that that the Plan would change over time. It was also anticipated that the Internal Audit Mandate and Charter would change throughout the year as the Council worked towards conforming with global standards in 2025.

In the ensuing debate, the following points were made:

- Procurement was an area where savings could be made by the Council. Andy Bromage commented that procurement had been identified as an ongoing area of risk and it was important and a requirement in the plan that it was carried out correctly and consistently. Phil Rook added that procurement should be an enabler to make savings for the Council
- The Chairman welcomed the revised plan which was clear and comprehensive.

RESOLVED that the Internal Audit and Counter Fraud Plan 2024/2025 be approved.

735 Audit and Governance Committee Self-Assessments 2023/24 (Agenda item 11)

The Committee considered the Audit and Governance Committee Self-Assessments 2023/24.

Phil Rook introduced the report and made the following points:

- It was good practice for members and officers to complete self-assessments of the work of the Committee and for an Annual Report to be produced
- It was possible for the Committee to convene private meetings at any time however he would not recommend such an approach because it was preferable to hold open and transparent Committee debates
- The response level from councillors to the request to complete the self-assessments had been disappointing. In addition, councillor attendance at Committee meetings had been poor and this was an issue that needed to be addressed
- This Committee had one of the most important roles within the organisation, especially given the Council's current financial position
- A number of councils had added an independent member to the Committee and consideration might be given to such an appointment at some point in the future.

In the ensuing debate, the following points were made:

- The Chairman indicated that he had written to the Leader/Deputy Leader of the Council stressing the important role of the Committee and expressing concern about the poor councillor attendance levels. It should be noted that alongside the existing vacancy, Cllr Morehead had indicated that he wishes to come off the Committee because of difficulties attending meeting dates
- The Chairman indicated that he was open-minded about adding independent members to the Committee. If adopted, such an approach should add value to the Committee and the most suitable person appointed. Phil Rook added that the CIPFA Guidance had highlighted the introduction of independent members as good practice. However, if the Committee was operating effectively, such an appointment would seem unnecessary
- In response to a query about councillor attendance, Phil Rook emphasised the importance of regular councillor attendance in terms of understanding the work flow of the Committee
- The analysis of the completed self-assessment forms had indicated that no significant changes needed to be made to the existing arrangements albeit a greater form completion rate from councillors would be helpful
- The Committee could invite the relevant Cabinet Member to address the Committee where it had particular concerns. Phil Rook responded that he would only recommend such an approach where absolutely necessary.

RESOLVED that the results are noted, and an action plan be formulated.

People Directorate - January 2024 Debt Position Statement (Agenda item 12)

The Committee considered the People Directorate - January 2024 Debt Position Statement.

In the ensuing debate, the following points were made:

- Was the reduction in the People Directorate's debt headline figure of £5.9m as a result of less people using the service or better management of an expanding service? Mark Fitton, Strategic Director of People responded that there had been an increased number of service users but less overall debt. Nicky Hardman, Income and Debt Manager added that progress had been made in relation to the 30-day recovery process target. Age debt of over 365 days remained a challenge. Unfortunately, the level of use of Peoples Directorate direct debit service had not increased. There remained an element of distrust amongst service users of the direct debit service. On occasion, people signed up and then cancelled. More analysis work was needed to understand the cause
- Had consideration been given to the creation of a portal that provided a more personal service to the client and allowed them access to information? Nicky Hardman responded that this approach would be given consideration
- The progress made with 96% of Financial assessments now being completed within 4 weeks was welcomed. It was critical that the charging mechanisms were explained to clients as early as possible. Jane Way, Operational Manager indicated that by the end of April 2024, work would start on undertaking Financial Assessments before the care had been purchased
- In response to a query, Nicky Hardman indicated that 45% of the overall number of service users had been signed up to direct debit payments. The service had increased its signposting to the service which had increased the number of applications but at the same time, the number of cancellations and defaults had increased
- If a service user cancelled their direct debit, could the service be withdrawn? Phil Rook advised that that the Council could not legally withdraw the service provision
- Service users had to be in residential care before a charge on their property could be made. What protection did the Council have against debt in other circumstances? Mark Fitton advised that the law did not provide a secure option for Council's to recover debt. Phil Rook added that the problem was that service users did not understand that the service was not free
- In response to a query, Mark Fitton explained that front line staff were reminded of their duty to drive best value and to inform service users that there would be a charge for the service. Phil Rook added that if the service did not receive the income, it had to be written-off which then impacted on the service

- In response to a query about the performance of other councils, Mark Fitton commented that a number of councils were unwilling to share information about bad debt and therefore it was difficult to attain comparator information
- What action would the service take where a vulnerable service user refused to pay and therefore would not receive care? Mark Fitton advised that an assessment would have to be made about whether the service user had the mental capacity to weigh up the risk and consequences of not receiving the care
- In response to a query, Nicky Hardman advised that there were now a number of payment options available to service users including by telephone, on line or in person
- The Chairman welcomed the progress made since the last report to Committee and requested that a further update report be brought back to Committee in 12 months.

RESOLVED that:

- a) The Debt Position Statement for the People Directorate be noted; and**
- b) An update on the Debt Position for the People Directorate be reported to Committee in 12 months.**

737 Risk Management (Agenda item 13)

The Committee considered the Risk Management report.

Andy Moran, Head of Commercial and Corporate Landlord provided an update on the issues associated with RAAC at County Hall, Worcester. He commented that a final report from the structural engineers setting out the different types of remediation work and associated costs was awaited. The report would be considered by Cabinet on receipt. Phil Rook added that it was unlikely that the report would be received in time for consideration at the March Cabinet meeting. The issue for the Council was that the remediation work was likely to be expensive and it would not be possible to capitalise the funding.

In the ensuing debate, the following points were made:

- It was queried whether there were any areas of County Hall where the impact of RAAC was considered low risk and therefore could be brought back into use relatively easily. Andy Moran responded that there were no areas of low risk, mainly medium and high risk areas. If the risk could be brought down to a manageable level, then consideration could be given to reoccupying certain areas of County Hall
- In response to a query, Andy Moran confirmed that the cost of the exploratory work of the structural engineers including the production of the final report was £120k
- In response to a query as to how the Council was maintaining business as usual with parts of County Hall unoccupied, Andy Moran advised that mitigation measures had been introduced including an increased

density of staff in offices as well as the occupation of spaces not previously used. Electric doors for the staff entrance had been introduced which meant the Council no longer needed to pay for security. However some of the offices in basement did not have any windows and therefore this was not a long-term solution

- In response to a query about the impact of RAAC on the County Hall tenants, Andy Moran commented that Defra had condensed their workforce and utilised other floors. The Government had given an instruction for civil servants to return to the office but locally Defra had maintained a rationale that this was not possible in County Hall
- There were a number of risks where the score after mitigation remained unchanged. Was a more nuanced approach available that provided a clearer picture of the impact of mitigation. Chris Bird indicated that a review would be undertaken with the Chief Officer Group of the approach to scoring risk after mitigation and an update provided at the next Committee meeting.

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

738 Treasury Management Update Quarter 3 2023-24 (Agenda item 14)

The Committee considered the Treasury Management Update Quarter 3 2023-24.

RESOLVED that the Treasury Management Update to the end of December 2023 Report 2023-24 and the Treasury Management Strategy for 2024-25 be noted.

739 Work Programme (Agenda item 15)

RESOLVED that the work programme be noted.

The meeting ended at 2.40pm.

Chairman