

# Audit and Standards Committee

Thursday 21 July 2022

## Minutes

### Attendance

#### Committee Members

John Bridgeman (Chair)  
Councillor John Cooke  
Councillor Sarah Feeney  
Councillor Bill Gifford  
Councillor Brian Hammersley  
Councillor Christopher Kettle  
Councillor Bhagwant Singh Pandher  
Robert Zara (Independent member)

#### Officers

Virginia Rennie, Strategy and Commissioning Manager (Strategic Finance)  
Paul Clarke, Internal Audit Manager  
Andy Carswell, Democratic Services Officer  
Gary Morris, Technical Specialist - Accounting Standards  
Sarah Duxbury, Assistant Director - Governance & Policy  
Andrew Felton, Assistant Director - Finance  
Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Risk & Insurance)  
Rob Powell, Strategic Director for Resources

#### Others Present

Avtar Sohal (Key Audit Partner, Grant Thornton)

### 1. General

The Chair informed members that due to an admin error Item 3 had initially not been included on the agenda when it was published. As the statutory deadline had passed, the Chair had been asked if this could be added as an urgent item. The Chair informed members it was important that the auditors' fees were agreed without undue delay and he had agreed to the request to add the item to the agenda, rather than convene a separate meeting. He stated this had been done properly in accordance with Section 100B(4) of the Local Government Act 1972.

#### (1) Apologies

There were none.

## **(2) Disclosures of Pecuniary and Non-Pecuniary Interests**

There were none.

## **(3) Minutes of the previous meeting**

Regarding Item 6 on the minutes of the previous meeting, it was clarified that in relation to the issue of accruals Councillor Chris Kettle was expressing his opinion on the matter and it would be dealt with outside of the meeting. It was confirmed this had taken place and Councillor Kettle was satisfied there was compliance. Subject to this amendment, the minutes of the meeting of the Audit and Standards Committee held on 19 May 2022 were agreed as an accurate record to be signed by the Chair.

## **2. External Audit Report - Warwickshire Pension Fund Annual Audit Plan, Fee Letter 21/22**

The item was introduced by Avtar Sohal (Grant Thornton), who advised the report followed the same principles as those that had been produced in previous years. The report had identified management override of controls and the valuation of Level 3 investments as being the most significant risks. However Avtar Sohal clarified it was not unusual for audits of local authorities to have management overrides flagged as an area of concern, as many would routinely make overprudent estimates to make their financial position look better. Additionally it was not unusual for Level 3 investments to be flagged as a risk, due to levels of financial information relating to them not always being readily available.

Regarding materiality, approximately £1.25million in mis-statements had been reported, which equated to around one per cent of the Fund's total assets. Avtar Sohal said any errors above this figure would need to go into the Audit Findings Report. He said the Audit Findings Report was on track to be signed off before the statutory deadline, although the amount of work Grant Thornton was having to carry out in relation to audit requirements was increasing. He said if the report was delayed for any reason then Warwickshire County Council would be informed as soon as possible, after the Chair noted there had been previous instances of Council finance staff having to work late or at weekends to make sure the deadline was met.

Responding to a question from the Chair in relation to Level 3 investments, Avtar Sohal said checks were made in accordance with the appropriate guidelines and methodology. Responding to a question from Robert Zara, Avtar Sohal explained that some Level 3 investments were more subjective and did not correlate to stock market levels; for example, the value of a property that the Council might own was subject to market value data. He also explained that the use of the word 'trivial' to explain debts or mis-statements was an industry standard, even in cases where significant sums of money were involved. If an error was found then this would be raised and management at Warwickshire County Council would be given the opportunity to amend their financial statements. Grant Thornton had to decide what would be an appropriate level of triviality. Chris Norton (Strategy and Commissioning Manager - Treasury, Pension, Audit and Risk) said that an example of a Level 2 investment was one within a partnership such as Border to Coast, where the Council was not a shareholder but did have a share in the business.

Councillor Kettle said there had been a lot of press coverage about increasing inflation and interest rates. In particular, interest rates had risen significantly in a short period of time and Councillor Kettle said this would have a serious impact on the Pension Fund and the value of the Council's

portfolio. Councillor Kettle also stated his belief that the definitions for Level 2 and 3 investments should be more clearly defined in the Fee Letter, to allow people to have a better understanding of what was being audited and how the valuations might be reached. Avtar Sohal said inflation and valuations had been included in the Audit Findings Report as areas of significant risk. He said more detailed information on the different types of investment could be included within the Audit Findings Report, but felt it was not appropriate for it to be included in the Fee Letter.

Councillor Brian Hammersley asked if there was any information available as to the percentage of investments that were held in Levels 1, 2 and 3. Andy Felton (Assistant Director, Finance) said this could be circulated to members, along with descriptors of what each investment level entailed. Chris Norton said the majority of them would be in Level 3. Andy Felton said materiality needed to be separated from the remainder of the accounts, in order to provide a fairer and more accurate financial position.

Regarding the £2.2million overpayment that had been referred to in the previous meeting, Andy Felton said this was an authorised payment and, technically speaking, was not a debt or a write-off.

Councillor Kettle said it would be useful to have an understanding of the methodology used for valuing Level 3 investments. He said there had been issues with Grant Thornton's staff resources in previous years due to the Covid pandemic and this had been understandable as it was a complex and unforeseen event. However Councillor Kettle stated his concern that potential reasons were already being put in place to explain why the deadline of 30 November could be missed. The Chair reminded members that an assurance had already been given by the auditor that the deadline would be met and Andy Felton said this would be delivered. Andy Felton said the valuation methodology was formulated by officers, who would then liaise with Grant Thornton and other investment partners to check the methodology was workable and the most appropriate way of progressing. Chris Norton said the governance arrangements were such that Council officers would look at the accounts in the first instance, and if a more detailed analysis was needed then this would be undertaken by Grant Thornton. Chris Norton stated that in the most recent financial year, more than £400million had been invested in private accounts.

Councillor Kettle said the instruction for the Fee Letter was broadly the same as last year's, but said reference to inflation and interest rates as risks had not been included. There had also been changes to the portfolio, particularly the increase in the number of Level 3 investments. Andy Felton said that this fell within the scope of what Pension Fund officers were working on. Although inflation rates may change, this did not alter officers' procedures and they would continue to make sure the valuation was in line with the accounting standards. Councillor Kettle said he would like to see more 'personalisation' included in the Fee Letter. Avtar Sohal said the Fee Letter needed to be approved by the Public Sector Audits Appointment, which was a national benchmarking exercise to ensure any fee increases were in line with the relevant standards.

Members unanimously agreed to approve the Annual Audit Plan and Fee Letter.

### **3. Audit Plan 2021/22**

The item was introduced by Avtar Sohal, who highlighted the main risks that had been identified. These were management override of controls; valuation of land and buildings; and value of net defined liability. Material statements on valuations were completed every month, meaning there

was a higher chance of a mistake being made. Valuations would be compared on a year-on-year basis and these would be highlighted in the final version of the report. Virginia Rennie (Strategy and Commissioning Manager, Strategic Finance) confirmed that valuation comparisons would take place as part of the quality assurance process, and any discrepancies would be clarified with the auditors.

Virginia Rennie said an external company was commissioned to carry out the valuations. Properties could be assessed on their market for sale value, whereas the cost of roads was assessed on their historical value and how much money had been spent on them. Schools would have displacement costs associated with them if there was a need for them to be replaced. Virginia Rennie said the valuer had changed this year, and they were being commissioned on a three-year contract. Responding to a question from Councillor Sarah Feeney, Virginia Rennie said property valuations were based on their present use and potential change of usage was not taken into account.

Councillor Kettle said potential impacts of inflation on valuations and statements had not been recognised in the report. Virginia Rennie highlighted that inflation and interest rates had been included in the report as an area of uncertainty and there were risks associated with this. The Chair said it had been noted earlier in the meeting that this had been audited and appropriate actions to take had been agreed by the Council. Councillor Kettle said although he accepted officers would do everything they could to mitigate risks, he said the auditors had not specifically raised it as a risk. Gary Morris (Technical Specialist, Accountancy Standards) explained the role of the auditor was to ensure a true and fair opinion was being issued in the financial statements, so they would look for different risks compared to those Council officers would highlight.

Responding to a point raised by Councillor Kettle regarding derecognising infrastructure assets, Avtar Sohal said there had been a big challenge in forming valuations of assets for the purposes of financial statements. He explained that if work took place on an asset, then its value would be carried forward. However there was disagreement if this was the correct course of action. Virginia Rennie said this was a national issue, and a consultation regarding infrastructure assets had been taking place. This meant the draft accounts could not be published until after the consultation had finished, and it had concluded on 26 June. Virginia Rennie said the accounts had been marked as saying there were in draft form, subject to clarification from the outcome of the consultation, so as not to delay the auditors.

Councillor Feeney asked how the auditors demonstrated the effectiveness of schemes that had a risk of not showing good value for money, such as SEND, by balancing the spend against the outcomes. Avtar Sohal said it wasn't just financial considerations that were taken into account; for example regulatory reports and procurement also formed part of its valuation. The auditors would then look at whether the recommendations in the report had been taken seriously and acted upon, and what progress had been made. If there had not been sufficient progress then this would be highlighted as a risk.

The Chair said the Financial Reporting Council had chosen Warwickshire County Council to be examined at random and they had discovered two areas of weakness as a result of the audit. He said the FRC had been in touch with him, as well as Warwickshire County Council, to make sure these two areas of weakness were recognised. Andy Felton said Warwickshire had been chosen at random. He said the timing of the previous audit had been unfortunate as it had coincided with the SEND review, and this had impacted on its value for money. He highlighted that in spite of this,

the key performance indicator relating to SEND had been amber rather than red. The Chair told members that the FRC would be made public in due course.

#### **4. Work Programme and Future Meeting Dates**

Members noted the contents of the work programme and the dates of future meetings.

#### **5. Any Other Business**

There were no additional items to discuss.

#### **6. Reports Containing Confidential or Exempt Information**

Resolved:

That members of the public be excluded from the meeting for items 7 and 8 on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

#### **7. Exempt Minutes of the Meeting of the Audit and Standards Committee Held on 19 May 2022**

The exempt minutes of the meeting held on 19 May 2022 were agreed, subject to a small amendment being made.

#### **8. Internal Audit Update**

Members received a confidential update.

The meeting rose at 11.37am

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Chair