

Audit and Standards Committee

Thursday 3 November 2022

Minutes

Attendance

Committee Members

Councillor John Cooke
Councillor Sarah Feeney
Councillor Bill Gifford
Councillor Brian Hammersley
Councillor Christopher Kettle
Robert Zara

Officers

Amy Bridgewater-Carnall, Senior Democratic Services Officer
Paul Clarke, Internal Audit Manager
Virginia Rennie, Strategy and Commissioning Manager (Strategic Finance)
Paul Clarke, Internal Audit Manager
Sarah Duxbury, Assistant Director - Governance & Policy
Andrew Felton, Assistant Director - Finance
Sioned Harper, Solicitor - Adults and Education Legal Team
Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Risk & Insurance)
Rob Powell, Strategic Director, Resources (via video link)
Virginia Rennie, Strategy and Commissioning Manager (Strategic Finance)

Others Present

Avtar Sohal, Grant Thornton

1. General

(1) Apologies

Apologies for absence were received from the Chair, John Bridgeman and Councillor Pandher.

In the absence of the Chairman, it was

Resolved

That Robert Zara, Independent Member, be appointed as interim Chair for the meeting.

(2) Disclosures of Pecuniary and Non-Pecuniary Interests

There were none.

(3) Minutes of the previous meeting

Councillor Gifford highlighted that in relation to Item 2, External Audit Report, Councillor Kettle had raised concerns regarding the inflation increase which did not seem to be detailed in the minutes. Councillor Gifford also recalled Councillor Kettle highlighting a number of issues in relation to Level 3 investments, including the methodology used and the potential for the 30 November 2022 deadline to be missed.

Andy Felton advised members of sections within the minutes which he had asked officers to amend to more accurately reflect the discussions. These included removing reference to any delay in delivering information to the auditors, which had not been the case. The final paragraph on page 4 of the minutes would also be amended to clarify the discussion relating to 'two areas of significant weakness' mentioned.

Subject to the revisions above, the minutes were agreed and signed by the Chair as an accurate record.

2. Warwickshire County Council and Warwickshire Pension Fund Statement of Accounts 2021/22 - Progress Update

Andy Felton (Assistant Director – Finance) introduced the report and advised that Grant Thornton were not in a position to complete the audit by the originally agreed date of 30 November 2022. The Council were required to re-publish the unaudited accounts, with any required amendments, to be accompanied by a statement advising why the accounts did not contain an audit opinion.

This delay was as a result of a nationwide issue relating to the derecognition of parts of infrastructure assets within local authorities and how this could be reported within the accounts. The government was in the process of developing a statutory instrument which would resolve these audit challenges through a statutory override and it was noted that this should be issued by the end of the month and is due to come into force on 25 December 2022.

Andy Felton reiterated that this issue was no-one's fault and, once the Statutory Instrument came into force, the audit could be signed off in the New Year.

Avtar Sohal (Grant Thornton) addressed members and advised that the audit was progressing well, with the pension audit almost complete. He stated that there were no significant errors to report. He provided an overview of the Statutory Instrument being developed to address the accounting issues raised in relation to infrastructure valuation and reiterated that this was a national problem. He thanked the Council's Finance Team and all officers involved for their assistance and cooperation with the audit and signposted members to a potential February sign-off at full Council.

Councillor Kettle expressed his unease at another delay with the audit and queried how a local authority could continue to operate and deliver services during the Covid Pandemic but one of the largest auditing firms in the country had been unable to keep to agreed timescales. He explained that he had trained as an auditor and scepticism and challenge had been a longstanding part of the job. He commented on the increased fees, which would be covered in the following agenda item, and asked for clarification of the likely impact on next year's deadlines, following the additional delay. Councillor Kettle felt that a guarantee should be given to ensure that similar delays were never repeated.

In response, Andy Felton clarified that the original timescales had been agreed by the Committee as a direct result of the resource issues Grant Thornton had been experiencing. This additional delay was solely due to the need for the statutory override to be implemented and he did not feel that there would be an issue with the report being presented to Council in February 2023. Andy Felton assured members that the audit work was on track as originally planned and encouraged them not to conflate two different issues. Councillor Kettle explained that he was not making any criticism of the internal Council team.

Rob Powell (Strategic Director, Resources) addressed the meeting and apologised for being unable to attend in person. He stated that there was a need for balance here and whilst he shared the disappointments being expressed, he restated that this delay arose directly from a national issue which no audit supplier would be able to mitigate in isolation from a national solution being in place. He also felt that Grant Thornton had consistently shown scepticism and challenge in their audit work, and that the introduction of additional regulatory requirements from the Financial Reporting Council would inevitably result in more work and a higher fee being charged.

Avtar Sohal explained that once the Statutory Instrument had gained Royal Assent, it would be in place for future years. Grant Thornton's officers were in dialogue with CIPFA and there was no basis for future delay in this area. He went on to summarise the delivery timetable which had been agreed previously and provided assurance that there was no delay in the actual audit process, and the associated work was on track. In support, Andy Felton stated that County Council officers were in ongoing dialogue with Grant Thornton and whenever issues were flagged up, they were acted upon immediately.

Councillor Gifford noted the current situation but was mindful that assurances had been given at the last meeting that the audit would be complete by 30 November date. In response, Andy Felton explained those assurances had been given based on the advice received at the time. He also reminded members that the current situation and national changes had led to government officials needing more time than they had originally envisaged.

Councillor Kettle suggested that when and if future directives were received from CIPFA, the accounts should be completed based on the existing and current regulations. He asked if it was possible to accept the accounts as they stood today with a view to amending them once any directive was implemented. Andy Felton advised that the override would enable the accounts to remain in their current state because the Council did not hold the historic data needed to amend them. He stated that waiting for the directive was in the Council's best interest. This was supported by Avtar Sohal.

Councillor Cooke addressed members and stated that, having considered the recommendations and the key issues detailed in the report, he supported the officers' proposal. He acknowledged the current situation and, whilst not ideal, saw the need to wait until the Statutory Instrument was in place. He also recognised the need to consider any potential 'knock-on' effect and the requirement to reschedule future Audit and Standards Committee meetings.

In response to a question from Councillor Hammersley, Andy Fenton advised that officers were not aware of any further new recommendations coming forwards.

In summary, the Chair thanked everyone for a robust debate and, subject to a minor amendment within the formal notice, the Committee agreed the recommendations as laid out.

Resolved

That the Committee:

1. Notes the progress on the audit of the 2021/22 Statement of Accounts and the progress report of the External Auditors, attached at Appendix A;
2. Notes the proposed wording regarding the reason for the delay to the publication of the accounts with an audit opinion to be used on the Council's website, attached at Appendix B, which will be finalised by the Strategic Director for Resources in line with statutory requirements; and
3. Agrees to the timetable of planned meetings of this Committee being changed to meet the revised timetable for the approval and publication of the 2022/23 accounts, when this is known.

3. Appointment of Auditors

Members received a report from Virginia Rennie (Strategy and Commissioning Manager) which asked them to support the appointment of Grant Thornton UK LLP as the Council's external auditors for the period spanning the audits from 2023/24 to 2027/28.

Virginia Rennie outlined the proposal and reminded the meeting that the Council had agreed to opt-in to the sector-led body procurement for the appointment of external auditors from April 2023. The procurement had been led by Public Sector Audit Appointments Limited (PSAA) and had resulted in Grant Thornton being proposed as the Authority's auditors for the next five years.

Members noted that the fees would increase by 150% and would be included in the Medium Term Financial Strategy forecast moving forwards. Officers were content that a good working relationship existed with Grant Thornton and this proposal would maintain consistency with that.

In response to a question from the Chair, Virginia Rennie explained that were an authority to undertake its own procurement, the same specification as PSAA would have to be used and could not be changed.

Councillor Hammersley acknowledged that good working relationships had been formed and whilst the cost increase was high, this was not due to any fault on Grant Thornton's behalf. He was concerned that each time a change was implemented via legislation, it had the potential to impact on the Council's finances.

Councillor Feeney also recognised that there was a requirement to increase auditor's costs nationally and the Council had no choice but to accept this. She also highlighted the fact that Grant Thornton had a good working knowledge of the Council's processes and systems.

Councillor Kettle requested assurances from Grant Thornton that they would be ready to start on the auditing work as soon as the accounts were in a position to be signed off. He expressed concern that there had been delays in the past due to 'post-Covid hangovers'. Councillor Gifford also highlighted the issue that residents may find it difficult to understand why costs for the services had increased, and whilst he recognised the national reasons for the delays, he did not feel it was easy to explain the re-appointment to constituents.

In response, Virginia Rennie advised that the procurement exercise undertaken by PSAA had increased auditing fees across the board and reminded Members that it was important to separate the two issues.

Rob Powell (Strategic Director, Resources) addressed the meeting and reiterated that the cost increase was driven by increased regulatory requirements which led to additional audit work, and that whilst he shared member's concerns, this was being driven nationally. He reminded the meeting that the Authority was still under pressure to make around £70million worth of savings through the next five year MTFs and in that context the increase in audit fees was both very disappointing and difficult to see as a priority for scarce resources. He supported Virginia Rennie's comments relating to the need to avoid conflating two separate issues; unforeseen delays due to the impact of Covid, staffing pressures and additional delays brought about by Government implementing the Statutory Instrument to deal with the national issue with infrastructure valuations. He did not feel that any auditor would be able to guarantee that delays would not happen again.

In response to a query from Councillor Feeney relating to lobbying against increased fees, Rob Powell assured her that officers had fed the Council's strong views against the increased fees but to no avail. He referred to the impact of changes to the audit market from 2010 which had resulted in a more fragile market which had now become a material risk to the local audit sector. There was now a need to put the public sector audit market back on an even keel. In support, Virginia Rennie referred to the Redmond Review which investigated simplifying local authority accounts and if successful would reduce the time it took to produce them.

Councillor Hammersley agreed with the comments from Councillor Feeney regarding the long process of repeatedly checking and auditing local authority accounts.

Councillor Kettle requested clarification on who out of the ten suppliers had not been awarded contracts and, if they were the larger firms, the reasons for not awarding. He noted that Grant Thornton would be undertaking a 36% share of local authority audits and queried if they had adequate resources to deliver this.

Avtar Sohal (Grant Thornton) explained that companies had the opportunity to opt in to the PSAA procurement process and there was limited expertise in relation to local authorities. He reminded the meeting that it had been Grant Thornton's strategic choice to reduce their market share to ensure they had sufficient resources available.

In summary, the Chair proposed the recommendations subject to members' reservations being expressed.

Resolved

That the Committee supports the appointment of Grant Thornton UK LLP as the Council's external auditors for the period spanning the audits from 2023/24 to 2027/28.

4. Annual Governance Report

Sioned Harper (Team Lead, Senior Solicitor – Governance) outlined the Annual Governance Report and explained that whilst there was no legal requirement to produce such a report, it was considered good practice in light of the Committee's remit.

Sioned Harper highlighted the arrangements in place to enable the Committee to carry out its assurance role and explained the various systems and processes the Council used to ensure legal and regulatory compliance. Some of the more familiar processes to Councillors were declarations of interest, the register of gifts and hospitality, as well as similar processes for staff.

Sioned Harper also gave an overview of some of the external inspections and reviews carried out, with a Local Government Association Peer Challenge taking place in March 2022. There were a number of actions arising from this including enhancing the training offer for staff and councillor development as well as a leadership training programme.

Within section 4 of the report, details were provided relating to Code of Conduct complaints received in the year ending March 2022 and how these had been progressed. Following a request at a previous meeting, members were provided with comparative figures from other local authorities relating to complaints against members.

Following consideration of this information, Councillor Gifford expressed the view that Warwickshire County Council appeared to be in a healthy position compared to higher numbers of complaints at other authorities. He went on to compliment the recent positive Ofsted inspection and felt that the Council overall was in a favourable position.

The Chair, Robert Zara, highlighted the feedback from the Local Government and Social Care Ombudsman annual review letter, detailed in paragraphs 2.3 onwards, which reflected on two areas of improvement and the steps being taken to address the issues raised.

Resolved

That the Committee notes the content of the report.

5. Work Programme and Future Meeting Dates

Sarah Duxbury (Assistant Director, Governance and Policy) addressed the meeting and provided an update on the two items detailed in the Work Programme.

With regard to the Scrutiny Review, members were content to receive a report to a future meeting on the progress in implementing the review and which would include the measures of success. Sarah Duxbury explained that further conversations with colleagues were needed regarding a realistic timeframe to ensure that the debate was meaningful and focused.

The second item, Impact of Grenfell was discussed and members agreed that a briefing update could be circulated informally with a view to them deciding if a formal agenda item was necessary. It was noted that a number of reviews had been, or were in the process of, taking place and it was important to recognise that Warwickshire Fire and Rescue Service (WFRS) may be aware of a number of recommendations already in the pipeline. It was agreed that WFRS officers would be contacted and asked to provide a briefing note for circulation.

6. Any Other Business

Councillor Kettle referred back to a query he had raised previously regarding the valuation of Level 3 investments, in particular the Fund Manager's valuation versus the Auditor's valuation. He was interested to understand the methodology used particularly in relation to his role as Chair of the Pension Fund Investment Sub-Committee.

In response, Avtar Sohal (Grant Thornton) advised that the Audit Findings report would provide more detail and the query may be better discussed once this was published.

Chris Norton (Strategy and Commissioning Manager) explained that there was always a risk associated with Level 3 investments, due to the potential for the numbers to move, therefore officers worked closely with fund managers to help manage this. Andy Felton advised that further details could be extracted and communicated to Councillor Kettle outside of the meeting.

7. Reports Containing Confidential or Exempt Information

Resolved:

That members of the public be excluded from the meeting for items 8 and 9 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.

8. Exempt Minutes of the Meeting of the Audit and Standards Committee Held on 21 July 2022

The exempt minutes of the meeting held on 21 July 2022 were agreed and signed by the Chair as a correct record.

9. Internal Audit Update

Members received a confidential update.