

Audit and Standards Committee

Thursday 14 March 2024

Minutes

Attendance

Committee Members

John Bridgeman (Chair)
Councillor Jo Barker
Councillor John Cooke
Councillor Sarah Feeney
Councillor Bhagwant Singh Pandher
Councillor Ian Shenton
Robert Zara (Independent Member)

Officers

Rob Powell, Executive Director for Resources
Virginia Rennie, Interim Director of Finance
Sarah Duxbury, Director of Strategy, Planning and Governance
Andrew Harper, Head of Strategic Finance
Gary Morris, Technical Specialist - Accountancy Standards
Chris Norton, Head of Investments, Audit and Risk
Paul Clarke, Internal Audit Manager
Amy Bridgewater-Carnall, Senior Democratic Services Officer

Others Present

Harkamal Vaid, Grant Thornton

1. General

The Chair welcomed new Committee Member, Councillor Jo Barker to the meeting along with Andrew Harper who had recently taken up the role of Head of Strategic Finance.

(1) Apologies

Apologies were received from Councillor Bill Gifford and Avtar Sohal of Grant Thornton.

(2) Disclosures of Pecuniary and Non-Pecuniary Interests

There were none.

(3) Minutes of the previous meeting

The minutes of the meeting held on 30 November 2023 were agreed and signed by the Chair

as a correct record.

The Chair highlighted the recent exchange of correspondence with Grant Thornton relating to his complaint concerning the 2017/18 County Council accounts. Members had been copied into the letter and a subsequent response from Grant Thornton. The Chair advised that it was hoped the accounts would be signed off by the end of March to ensure this formality could be completed whilst reiterating his frustration at the delay.

2. CIPFA Financial Management Code - Warwickshire County Council Self-Assessment 2023/24

The Committee received a report which outlined the progress made on the delivery of the planned improvements in financial management during 2023/24 as detailed in Appendix 1 to the report. The report also highlighted the Council's compliance with the CIPFA Financial Management Code and the improvements planned for 2024/25 as per Appendix 2.

Virginia Rennie, Director of Finance, gave an overview of the report, highlighting that the Council operated on a basis of continuous improvement. The planned improvements for 2023/24 detailed in Appendix 1 had now been completed. She signposted Members to paragraph 1.9 of the report, which highlighted the difficult financial position Local Government found itself in, advising that maintaining healthy budgets would become increasingly difficult. The importance of keeping governance procedures to a high standard was even more critical in an uncertain financial world.

The Chair shared his experience of attending a recent webinar on local authority audits, advising that approximately 700 audit opinions remained outstanding in the local authority sector. Conclusions had been drawn as to whether the master auditing standard was appropriate for the situation authorities found themselves in. John Bridgeman gave assurance that should there be anything further that could be done to urge a simplification of accounts or to assist in lobbying CIPFA, the Committee stood ready to act. He also referred to the feeling amongst Audit Chairs that some auditing processes were over-elaborate, citing the valuation of certain assets such as bridges.

Having considered the report and having heard from officers, it was

Resolved

That the Audit and Standards Committee

- 1) Note the progress made on the delivery of the planned improvements in financial management during 2023/24; and
- 2) Consider and comment on the Council's assessment of its compliance with the CIPFA Financial Management Code and the improvements planned for 2024/25.

3. Warwickshire County Council 2022/23 Audit Findings Report - Update

This report introduced an updated Audit Findings Report from the External Auditors, Grant Thornton. Harkamal Vaid from Grant Thornton outlined the report advising that the content

remained largely as reported in November last year, with an unqualified audit opinion issued in January.

Harkamal Vaid assured that there were no significant changes to report but signposted Members to pages 66 to 69 which highlighted the audit adjustments made since the last report, full details of which were in Section – Audit Adjustments. There were two adjustments to the accounts which were not material.

The Chair referred to his formal letter of complaint regarding the certification of the accounts, sent on 19 February 2024, which the Committee had been copied in to. The External Auditor's response had also been shared with Members prior to the meeting. The Chair also queried the review of journals, asking if the Council worked differently to any other authorities. He was keen that this did not continue to be a recurring item but was assured this was not due to a fundamental breakdown of controls.

Councillor Sarah Feeney also asked for clarification on the issue of journals, and queried if this became more important when clear overspend on projects occurred, such as at Birmingham City Council with their IT project. Harkamal advised that it was not uncommon that journals were not authorised, recognising that there were thousands of journal entries in the system. He also gave assurances that the auditors had undertaken a significant amount of testing and no problem had been found.

Having considered the report, it was

Resolved

That the Audit and Standards Committee notes and comments on the updated Audit Findings Report of the External Auditors for Warwickshire County Council, attached at Appendix A to the report.

4. External Auditors Report - Warwickshire County Council Financial Year 2023/24 Audit Plan

Members received a report which identified Grant Thornton's audit plan and fees for the County Council for the 23/24 financial year. Harkamal Vaid, Grant Thornton, introduced the report, highlighting that this was a similar audit plan to last year with no further significant risks that warranted additional testing.

Harkamal Vaid referred to the valuation of land and building and pension liabilities, explaining that any change in valuation could have a material impact on the accounts and recognised the need to rebut the risk for these items. He also referred to the timings of the audit, of which the planning work was complete and officers were satisfied they would be in a position to report in November 2024.

The Chair asked for confirmation that Grant Thornton would, therefore, not be able to meet the statutory September deadline. Harkamal Vaid confirmed this was correct, as in previous years, the external auditors were still looking to catch up on the backlog of work but were confident they would be in a position to complete the audit by the end of the calendar year.

In relation to the major IT audit, the Chair asked if this would include the testing and security of systems and the susceptibility to malicious attack. Harkamal Vaid confirmed that the audit would focus on the design and implementation of controls but would include cyber security.

Robert Zara, Independent Member, queried the fee increase and asked if this would enable the auditors to perform work more efficiently and speedily. Harkamal Vaid explained that the fee was not set by Grant Thornton but by Public Sector Audit Appointments Limited (PSAA). PSAA felt that the original fee, set some years earlier, was no longer reflective of the complexity or demand of work now being seen. Harkamal Vaid gave assurance that the firm would be completing work to the highest quality and complying to auditing standards.

The Chair suggested that the Council may wish to raise this with PSAA as it did not appear that there would be an improvement in quality or timeliness of the work. Therefore, he queried the justification for doubling the fee as there may not be any measurable change to the submission date or quality of the audit from last year. The Executive Director for Resources, Rob Powell, agreed that this could be done.

Councillor Shenton felt this was a clean report with minor issues highlighted but no significant issues. He also raised the dramatic increase in the scale fee.

Rob Powell reiterated Grant Thornton's comments that this was felt to be a correction made to fees across the sector, as these had been low for some time but agreed with the comments that the accounts were overly complex and the work was disproportionate to the value that it added. He stated his disappointment with the higher fee, bearing in mind the other financial pressures being felt across the Council.

Councillor Feeney noted the significant risks identified with the Pension Fund and raised a query with the number of valuations undertaken. In response, Rob Powell explained that as the biggest valuations related to pension fund assets and liabilities, it was appropriate to have them independently checked.

Resolved

That Audit and Standards Committee considers and comments on the Annual Audit Plan for 2023/24 from the External Auditors, attached at Appendix 1.

5. Final Audit Findings Report for 2022/23 Pension Fund Accounts

Members received a report from Grant Thornton which presented the final audit findings report and a copy of the final accounts for the Warwickshire Pension Fund.

Chris Norton, Head of Investments, Audit and Risk, introduced the report and highlighted that the pension fund accounts formed a component of the Council's overall accounts and a copy of the final accounts had been included for completeness. The overall audit opinion had been unqualified with no major issues brought to attention. It was noted that there was a typographical error in paragraph 1.1 which should have read December 2023 not 2024.

The Chair expressed his gratitude to Chris Norton and his team, recognising the level of work they had undertaken amidst great pressure.

Harkamal Vaid echoed officer comments, assuring that there were no material changes other than presentational ones.

Following a question from Councillor Shenton, Harkamal Vaid advised that the wording in the conclusion on page 109 should state 'completed audit' and would be amended.

Resolved

That the Audit and Standards Committee notes the Audit Findings Report for 2022/23 Pension Fund Accounts attached at Appendix 1.

6. External Audit Plan for Warwickshire Pension Fund 2023/24 Accounts

The Council's External Auditors set the audit plan and audit fees for the Warwickshire Pension Fund on an annual basis. This report set out the information along with the rationale and scope for the fees.

Chris Norton introduced the report and highlighted similar issues as those raised in the previous agenda item with regards to the change in fees. In relation to the report content, he advised that a lot of the information was standard and similar to the previous year.

Harkamal Vaid referred Members to page 200 of the pack which gave an overview of the audit headlines and two significant risks; management over-ride of controls and the valuation of Level 3 Investments. He also highlighted Grant Thornton's determination in relation to materiality and advised that it was hoped to complete the pension fund accounts at the same time as the WCC accounts, presenting their Audit Findings Report in November 2024.

Further clarification was provided on Level 3 Investments, as it was noted these appeared to be a problem for pension funds across the board. The Chair queried what steps were being taken to be more rigorous either by Grant Thornton or through CIPFA. Harkamal Vaid advised that there was a significant amount of work undertaken in this area and pension funds relied on the advice from their experts, assuring that the methods followed were accurate. In addition, Chris Norton explained that there were professional standards to be adhered to by the fund managers but it could be challenging to value assets as they came with a level of inherent uncertainty.

In response to a question from the Chair regarding the limit that Investment Committees put on the proportion of investments made, Chris Norton explained the strategic asset allocation used, the benefits for growth and protection and the ability to take action if limits were exceeded. He went on to provide further clarification on the action taken if assets exceeded the liabilities and the fluctuation of assets which could change rapidly with the markets.

The Chair raised a concern that when there was a pension surplus, consideration had to be given as to whether to increase employee benefits or reduce the employer contribution, with a lot of surplus being driven by valuable Level 3 assets.

Chris Norton gave assurance that with a set of different investments, complimentary to each other, it helped to offset the risk and the overall portfolio should not move around too much.

Having considered the report, the Committee

Resolved

That the Annual Audit Plan for 2023/24 Warwickshire Pension Fund Accounts is noted.

7. Internal Audit Plan 2024/25

Paul Clarke, Internal Audit Manager, introduced the report which outlined the proposed Internal Audit Strategy and Plan for the Council for 2024-25 and was attached at Appendix A to the report.

Paul Clarke provided an overview of the report which included a combination of audit work planned in 2024/25 as well as what was happening nationally with emerging risks. Officers had also taken account of the Council's risk register, as well as the results of previous audit work alongside other external work by Ofsted, HMI FRS and the Care Quality Commission. The plan had been worked on collaboratively with managers, using a significant consultation exercise across the Council, both operationally and corporately.

Paul Clarke referred to Appendix 2 which outlined the proposed range of audits to be undertaken across various risks and services, whilst linking to strategic Council priorities.

Following a question from the Chair, Paul Clarke gave assurance that his team met with managers throughout the year and were able to manage any potential changes to the plan as appropriate. It was expected that the list of audits proposed would be completed as a package and resources could be redeployed if the need arose. Paul explained that, if necessary, vacancies or sickness could be managed with external support to ensure the work was completed.

Within the list of planned audits for 2024-25, the topic of Fire Service culture was noted and the Chair asked for clarification on the standard that would be applied. Officers referred to the national reviews undertaken, alongside local reviews, by senior experts, external to the Council. Rob Powell clarified the context of the concerning nature of the national issues reported on in the media, compared to the review commissioned in Warwickshire. He assured that the type of issues reported on nationally had not been found to be occurring in Warwickshire. The Internal Audit team would be looking at how the action plan for ongoing improvements was being implemented.

Councillor Feeney raised a question regarding the Strategic Infrastructure and Climate Change audit planned. Officers advised that the audit would look at the plans put in place by the Council to tackle climate change and the progress being made. Further discussions followed relating to climate change and the strategy published by the Council, with officers agreeing to circulate the link to the Sustainable Futures Strategy for information.

The Chair thanked Paul Clarke and his team for a good report, citing Internal Audit as the Council's 'first line of defence'. He welcomed the plan and looked forward to seeing the audits progress over the next year.

Resolved

That the Internal Audit Strategy and Plan for 2024-25 is endorsed as per Appendix A to the report.

8. Work Programme and Future Meeting Dates

The Committee considered the work programme as set out in the agenda and noted that officers would be liaising to map out the timings of regular, standing reports throughout the year.

The Chair referred to the Role of Overview and Scrutiny at the Council and queried if there was an update on the work. Sarah Duxbury, Director of Governance, Strategy and Planning, advised that all actions from the review undertaken had been completed. One outcome relating to the overview and scrutiny charter had been completed and the good attendance and contribution noted.

The next meeting date of the Committee was noted as 23 May 2024 and future dates for 2024/25 would be detailed in the minutes.

9. Any Other Business

None.

10. Reports Containing Exempt or Confidential Information

It was resolved that members of the public be excluded from the remainder of the meeting as it would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

11. Exempt Minutes of the previous meeting

The exempt minutes of the meeting held on 30 November 2023 were agreed and signed by the Chair as a correct record.

12. Internal Audit Update Report

Members considered the exempt report and

Resolved

That the content of the report is noted.

The meeting rose at 11.16am

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Chair