

# Audit and Standards Committee

Date: Monday 20 July 2020  
Time: 10.00 am  
Venue: Microsoft Teams

## Membership

John Bridgeman (Chair)  
Councillor Parminder Singh Birdi  
Councillor Mark Cargill  
Councillor Neil Dirveiks  
Councillor Bill Gifford  
Councillor John Horner  
Councillor David Reilly

Items on the agenda: -

### **(3) Minutes of the previous meeting and matters arising**

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The minutes of the meeting of 7 November 2019 were confirmed as an accurate record.

#### Matters arising

In response to Councillor Cargill, Rob Powell (Strategic Director, Resources) advised that the updated Reserves Strategy had been approved by Cabinet and formed part of the Budget Resolution in February 2020.

In response to the Chair, Sarah Duxbury (Assistant Director, Governance and Policy) advised that the process to recruit a new independent member of the Committee had been paused following the outbreak of coronavirus. However, recruitment packs had been prepared and the position would be advertised in September or October 2020 with a view to recruiting a new member by the end of 2020.

**Monica Fogarty**  
Chief Executive  
Warwickshire County Council  
Shire Hall, Warwick

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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# Audit & Standards Committee

Monday, 20 July 2020

## Minutes

### Attendance

#### Committee Members

John Bridgeman (Chair)  
Councillor Parminder Singh Birdi  
Councillor Mark Cargill  
Councillor Neil Dirveiks  
Councillor Bill Gifford  
Councillor John Horner  
Councillor David Reilly

#### Officers

Kieran Amos, Chief Fire Officer  
Helen Barnsley, Democratic Services Officer  
Paul Clarke, Internal Audit Manager, Delivery Lead  
John Cole, Trainee Democratic Services Officer  
Sarah Duxbury, Assistant Director – Governance and Policy  
Andrew Felton, Assistant Director, Finance  
Carl Hipkiss, Development and Analysis Team Manager  
Deborah Moseley, Senior Democratic Services Officer  
Chris Norton, Strategy and Commissioning Manager – Treasury, Pension, Audit & Risk  
Jane Pollard, Legal Services Manager  
Rob Powell, Strategic Director, Resources  
Lynn Todman, Technical Specialist – Risk Manager

#### Others Present

James McLarnon, Engagement Manager – Grant Thornton  
Grant Patterson, Engagement Lead – Grant Thornton

### 1. General

#### (1) Apologies

Apologies were received from Mark Ryder (Strategic Director, Communities).

#### (2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

There were none.

### **(3) Minutes of the previous meeting and matters arising**

The minutes of the meeting of 7 November 2019 were confirmed as an accurate record.

#### **Matters arising**

In response to Councillor Cargill, Rob Powell (Strategic Director, Resources) advised that the updated Reserves Strategy had been approved by Cabinet and formed part of the Budget Resolution in February 2020.

In response to the Chair, Sarah Duxbury (Assistant Director, Governance and Policy) advised that the process to recruit a new independent member of the Committee had been paused following the outbreak of coronavirus. However, recruitment packs had been prepared and the position would be advertised in September or October 2020 with a view to recruiting a new member by the end of 2020.

## **2. Draft Annual Governance Statement 2019-20**

Chris Norton (Strategy and Commissioning Manager – Treasury, Pension, Audit & Risk) introduced the report, highlighting that the document was in draft form and would not be finalised until its submission to Council in October 2020. He drew attention to the inclusion of information relating to the response of the Authority to coronavirus; this was present throughout the document in acknowledgement of the breadth of the implications of the pandemic. He advised that the report had been reviewed by an evaluation panel of senior officers prior to presentation to the Committee.

Councillor Gifford highlighted the importance of ensuring that the climate change agenda was not obscured by the urgency of the Authority's response to the COVID-19 crisis.

Rob Powell (Strategic Director, Resources) advised that climate change was a key issue identified within the COVID-19 Recovery Plan and would be considered as part of the recommendations emerging from the recovery member working groups to Cabinet in September 2020.

Rob Powell advised that the Authority's response to coronavirus, including new ways of working, was improved by initiatives that were already underway prior to lockdown; the crisis had accelerated the transformation process.

Grant Patterson (Grant Thornton) commented that the Annual Governance Statement covered the period up to publication of the Council's accounts in September 2020; should the need arise the document should be updated of any significant developments during the interim period.

#### **Resolved:**

That the Committee

- 1) Endorses the draft Annual Governance Statement at Appendix 1.
- 2) Notes the revised AGS approval and publication timetable at Appendix 2 and the factors considered when determining any significant governance issues (Appendix 3).

### **3. External Audit Report - Warwickshire Pension Fund Annual Audit Plan, Fee Letter, and Risk Assessment 2019/20**

Chris Norton (Strategy and Commissioning Manager – Treasury, Pension, Audit & Risk) introduced the report and highlighted that the Warwickshire Pension Fund had a responsibility for administering the Local Government Pension Scheme (LGPS) for around 200 employers as well as the County Council, with a membership of approximately 50,000 individuals.

Chris Norton commented that an increase in 'Level 3' investments, those most difficult to measure, had been observed as an outcome of coronavirus. He commented that it had been determined to include a risk assessment within the report to address potential areas of risk, including the impact of the pandemic on markets. Maintaining cashflow had been identified as a priority since the introduction of lockdown measures. The Pension Fund was a long-term entity; it was reasonable to anticipate swings in the market such as those observed as an outcome of COVID-19.

Councillors Dirveiks, Gifford and Horner stated that they were also members of the Pension Fund Investment Sub-Committee, which did not require a declaration of interest but was considered worthy of note.

James McLarnon (Grant Thornton) outlined the key areas of interest within the report. He advised that the significant areas of risk highlighted in the Audit Plan, which had been produced prior to the outbreak of COVID-19, were consistent with those of the prior period. He advised that the net assets of the fund were the most reliable benchmark to calculate the extent by which a misstatement in accounts could be material to a user's understanding of the governance of the fund. This equated to less than 1% of net assets of the prior year (approximately £20million) which was in-line with the previous period.

Councillor Cargill enquired whether the impact of the UK's departure from the European Union had been considered by the external auditor.

Grant Patterson (Grant Thornton) advised that the completion of the 2019 Annual Evaluation had effectively set contributions to the fund for a period of three years. This applied to Warwickshire County Council and the other participating employers. He advised that the impact of Brexit, as well as that of COVID-19, would be apparent at the conclusion of this three-year period.

Grant Patterson also advised that actuaries had identified a remedy to the fiscal challenges brought about by the McCloud judgement; it was hoped that this would mitigate the material effect on the fund. However, he stated that this created a risk to all pension funds and similar cases within the judicial system could be anticipated.

Chris Norton commented that, in recognition of the complexities of long-term planning, actuaries provided a probability rating for the achievement of funding levels across a 19-year period. In response to the McCloud judgement the probability rating had been increased by approximately 10% which improved the outlook for long-term stability.

Andrew Felton (Assistant Director, Finance) expressed confidence that, by means of ongoing risk modelling by actuaries and engagement with participating organisations within the scheme deemed to be 'at risk', the long-term outlook for the fund was positive.

Grant Patterson highlighted the key issue of Level 3 investments which were more difficult to quantify. However, he stated that overall, the outlook for the Pension Fund was consistent with

standards observed across the sector. COVID-19 had introduced an anticipated level of uncertainty; however, its impact may not be fully apparent for a period of two years or longer.

In response to the Chair, Grant Patterson advised that Grant Thornton was working remotely in common with Council personnel. This introduced additional challenges such as proving the authenticity of information supplied. He acknowledged that the firm stood to make a saving in transport costs, however, there was evidence to suggest that auditing remotely was more time consuming. Grant Thornton was investing in technology to improve the efficiency of remote auditing. Grant Thornton would strive to adhere to the agreed fee envelope, but a reduction in the fee was not anticipated.

**Resolved:**

That the Audit and Standards Committee endorses:

- 1) The Annual Audit Plan for 2019/20 from the External Auditors;
- 2) The Audit Fee Letter for 2019/20; and
- 3) The Audit Risk Assessment for 2019/20.

**4. External Auditors Report – Warwickshire County Council Annual Audit Plan, Fee Letter and Risk Assessment 2019/20**

Grant Patterson (Grant Thornton) introduced the report, stating that many of the risks identified were consistent with those of previous years with a focus on valuation of pension fund net liability, valuation of land and buildings, and management override of control.

Grant Patterson stated that he was aware that the Authority would be undertaking a re-analysis of its Medium Term Financial Strategy (MTFS) to take account of the impact of COVID-19 as well as any support from central government once details were known.

Grant Patterson advised that the increased fee had been introduced in response to a tightening of auditing standards imposed by the independent regulator, the Financial Reporting Council (FRC). The FRC had raised its expectations for verification of evidence and valuation of assets across the sector; this created an additional obligation for Grant Thornton.

Rob Powell (Strategic Director, Resources) indicated that he was content with this explanation.

Grant Patterson stated that many organisations would be reviewing their ways of working, including office space requirements, in response to the coronavirus crisis. However, prior to the outbreak of the virus, Warwickshire County Council had consistently kept its estate requirements under review; the pandemic had accelerated the transformation in working practices, it was felt that the Authority would continue to use its assets efficiently.

Grant Patterson agreed that the assertion in the 'Informing the Audit Risk Assessment' document that "the primary responsibility to prevent and detect fraud rests with both the Audit & Standards Committee and management" was potentially misleading. To clarify, he stated that the three lines of defence against fraud could be prioritised as: (a) processes implemented by management, (b) scrutiny by the Audit and Standards Committee, and (c) inspection by the external auditor.

Chris Norton (Strategy and Commissioning Manager – Treasury, Pension, Audit and Risk) advised that a Fraud Risk Strategy was being developed by the Authority but a date for completion had not been set.



The Chair commented that the changes to ways of working following the introduction of lockdown measures, including increased homeworking and potential exposure to stress, could affect the organisation's vulnerability to fraud. These areas were worthy of consideration within the proposed Fraud Risk Strategy which he requested be supplied to the Committee for review upon completion.

Paul Clarke (Internal Audit Manager, Delivery Lead) advised that 'Fraud Awareness Week' and 'Do the Right Thing Week' were likely to be scheduled for November 2020.

Sarah Duxbury (Assistant Director, Governance and Policy) advised that a reporting arrangement was in place to highlight any instances of non-compliance by the Authority to standards dictated by external regulatory bodies. She advised that a formal process would be followed both internally and through executive arrangements to ensure that appropriate action was taken.

Paul Clarke advised that issues raised by regulators were monitored and, depending upon the severity of the breach, communicated to the Audit and Standards Committee within an Internal Audit Report.

The Chair highlighted the additional obligations placed upon services by the coronavirus crisis, alongside funding uncertainties, and the effect this could have upon the Authority as a going concern. He referred to Northamptonshire County Council's insolvency crisis in 2018 and raised a note of caution.

Grant Patterson stated that an assessment of the Council's reserves had not uncovered any serious concerns. He commented that the proposed reprofiling of the MTFS would provide clarity, although uncertainties were present in respect of measures proposed by the government. He added that he did not have any specific serious concerns to report apart from the residual Value for Money risks outlined in the Report.

**Resolved:**

That the Audit and Standards Committee endorses:

- 1) The Annual Audit Plan for 2019/20 from the External Auditors;
- 2) The Audit Fee Letter for 2019/20; and
- 3) The Audit Risk Assessment for 2019/20.

**5. External Auditors' Progress Report and Sector Update**

James McLarnon (Grant Thornton) advised that, following planning and interim visits, there were no issues to report to the Committee. Auditing of the Council and Pension Fund would be ongoing throughout July and August with a view to completion in September 2020.

**Resolved:**

That the Audit and Standards Committee endorses the External Auditors' Progress Report and Sector Update.

**6. Internal Audit Plan 2020-21**

Paul Clarke (Internal Audit Manager, Delivery Lead) introduced the Plan, stating that it had originally been prepared for the meeting of the Committee in March which was cancelled following the outbreak of COVID-19. Since then, he advised that the report had been updated to reflect the

impact of the pandemic and the reorientation of priorities in response to the change in circumstances.

In response to the Chair, Andrew Felton (Assistant Director, Finance) stated that Warwickshire's Adult Social Care services had demonstrated resilience throughout the pandemic with good channels of communication between commissioners, health partners and providers. He added that the reintroduction of systems which were temporarily relaxed during the crisis would be a priority for the Council.

**Resolved:**

That the Committee:

- 1) Endorses the proposed plan, and
- 2) Approves the Audit Charter.

## **7. Internal Audit Annual Report 2019/20**

Paul Clarke (Internal Audit Manager, Delivery Lead) introduced the Annual Report. The impact of coronavirus had led to an interruption of auditing activities, meaning that some reports remained at draft stage. The pandemic had also affected the schedule for implementation of some recommendations. An auditing exercise to take account of outstanding issues had been delayed from April 2020 due to the virus; this would be rescheduled, and the outcome would be included within a future report.

In response to queries from Councillor Horner and Councillor Gifford, Paul Clarke advised that there was an increase in the number of limited assurance opinions from the levels recorded in 2018/19. The scoring criteria had not changed, but variations could be anticipated depending upon the areas of the organisation's activities under consideration. Where limited assurance was highlighted, there was an expectation that appropriate action be taken by the Council's leadership team.

Andrew Felton (Assistant Director, Finance) commented that evaluation of the root causes for limited assurance opinions was being undertaken. In instances where a single episode had accounted for a poor rating, intervention was sought to rectify the issue and re-evaluate the level of assurance.

**Resolved:**

That the Committee notes the results of internal audit work completed during 2019/2020.

## **8. Annual Report of the Audit & Standards Committee**

The Chair identified some additional areas of the Committee's work during the 2019/20 period to be included within the Annual Report prior to its presentation to the Council. These included the recruitment of a new Independent Member, evaluation of the Northamptonshire County Council insolvency crisis, continued scrutiny of case management arrangements for adult social care and children's services, and the response of the Fire & Rescue Service to the recommendations emerging from the Grenfell Tower inquiry. It was agreed that the report would be amended accordingly.

**Resolved:**

That the Audit and Standards Committee:

- 1) Endorses the Report;
- 2) Agrees to forward the updated Annual Report to Council for approval.

**9. LGA Consultation Member Code of Conduct**

The Chair observed that the Leader of the Council, Councillor Izzi Seccombe, was amongst the signatories of Local Government Association's (LGA) 'Model Member Code of Conduct'. The consultation was due to close on 17 August 2020; the Chair sought the opinion of the members of the Committee to the consultation questions.

Councillor Gifford stated that Warwickshire County Council was characterised by civility. He commented that no inquiry into members' conduct had been presented to this Committee in recent history; this was not due to a casual approach in reporting mechanisms, but rather a reflection of the high standards observed by the Authority.

Councillor Dirveiks observed that, although it was regrettable that the need for a model code of conduct existed, the principles outlined by the LGA report would serve to protect councillors' as well as offering assurances to the wider organisation and members of the public.

Councillor Cargill welcomed the recommendations of the report in principle, stating that common sense could be applied to many of the questions posed by the questionnaire, for instance, it was reasonable to expect members to act with civility. He added that Council business was often characterised by 'robust discussion' which could be misconstrued by the uninitiated as being overtly forthright in nature.

Councillor Horner highlighted the potential challenges associated with subjective nature of some of the terminology adopted. For example, he suggested, how would an inquiry reach a conclusion in respect of whether an individual had acted with 'civility'; the definition of this term depended upon context as well as the background of the individual concerned.

Councillor Reilly stated that, overall, the principles advocated by the report were sound. However, he highlighted the importance of a clear policy for the referral of complaints to the police. He added that consideration of vexatious complainants warranted greater clarity.

In response to the Chair, Rob Powell (Strategic Director, Resources) advised that social media should be included within a prospective code of conduct. However, he commented that this was a consultation on a draft code of conduct which the Authority was not obliged to adopt.

The Chair requested that the members of the Committee submit their responses to the consultation questionnaire to Jane Pollard (Legal Services Manager) to enable a consolidated response to be made on behalf of the Committee. He requested that a parallel exercise be undertaken to enable all members of the Council to respond individually to the consultation. It was agreed that the consultation would be circulated to all members.

**Resolved:**

- 1) That the Committee notes the draft model code of conduct;

- 2) That the Strategic Director for Resources is authorised to make a response to the Local Government Association consultation which incorporates the comments of the Committee.

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

The Committee noted the Work Programme and future meeting dates.

#### **11. Any Other Business**

The Chair drew attention to the Council's Legal Service which had been recently awarded a Lawyers in Local Government (LLG) national award as 'Governance and Legal Team of the Year'. Guy Darvill (Solicitor) was awarded 'Legal Professional of the Year' at the same event. The Chair acknowledged the value that the Legal Team brought to the Authority and expressed his congratulations.

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

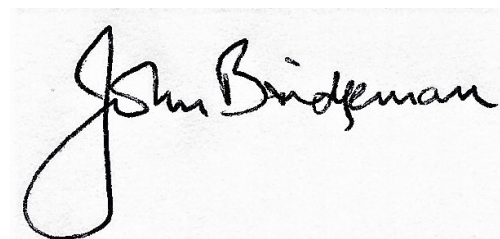
##### **Resolved:**

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

#### **13. Exempt Minutes of the Audit and Standards Committee meeting held on 7 November 2019 and Matters Arising**

It was agreed that the exempt minutes be signed by the Chair as a true record.

The meeting rose at 12:35.

A handwritten signature in black ink, reading "John Bridgeman". The signature is written in a cursive style with a large, looped initial 'J'.

Chair