

Audit and Standards Committee

Date: Thursday 10 June 2021
Time: 10.00 am
Venue: Shire Hall, Warwick - Shire Hall

Membership

John Bridgeman (Chair)
Councillor John Horner
Councillor Parminder Singh Birdi
Councillor Bill Gifford
Councillor Sarah Feeney
Councillor Brian Hammersley
Councillor Christopher Kettle

Items on the agenda: -

(3) Minutes of the previous meeting

3 - 14

Resolved:

That the minutes of the meeting held on 25 March 2021 be approved as an accurate record.

Matters Arising

In response to the Chair, Sarah Duxbury (Assistant Director, Governance and Policy) advised that the proposed revisions to the Member Code of Conduct which were supported at the last meeting of the Committee had been endorsed by Cabinet and would be presented at the meeting of full Council on 1 July 2021.

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 and Standards Committee

Thursday 10 June 2021

Minutes

Attendance

Committee Members

John Bridgeman (Chair)
Councillor Parminder Singh Birdi
Councillor Sarah Feeney
Councillor Bill Gifford
Councillor Brian Hammersley
Councillor John Horner
Councillor Christopher Kettle

Officers

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
Allison Lehky, Service Manager, HR Enabling
Chris Norton, Strategy and Commissioning Manager, Treasury, Pension, Audit & Risk
Rob Powell, Strategic Director, Resources
Virginia Rennie, Strategy and Commissioning Manager, Strategic Finance

Others Present

John Gregory, Key Audit Partner – Grant Thornton
Jim McLarnon, Audit Senior Manager – Grant Thornton

1. General

(1) Apologies

Apologies were received from Barnaby Briggs (Assistant Chief Fire Officer).

(2) Disclosures of Pecuniary and Non-Pecuniary Interests

Councillor Kettle stated that he had previously been employed by Grant Thornton, though not in an audit capacity.

(3) Minutes of the previous meeting

Resolved:

That the minutes of the meeting held on 25 March 2021 be approved as an accurate record.

Matters Arising

In response to the Chair, Sarah Duxbury (Assistant Director, Governance and Policy) advised that the proposed revisions to the Member Code of Conduct which were supported at the last meeting of the Committee had been endorsed by Cabinet and would be presented at the meeting of full Council on 1 July 2021.

2. Warwickshire County Council - Audit Plan and Fee Letter

John Gregory (Grant Thornton) introduced the item, stating that levels of materiality and significant risk were broadly consistent with previous years. An updated auditing standard on accounting estimates was now in place; this required closer examination of assumptions underlying estimates and internal financial reporting processes. This was pertinent to auditing of pension liability as well as property, plant, and equipment (PPE) valuations.

John Gregory advised that a revised approach to value for money assessments was in place. At this stage, no significant risks had been identified. A baseline commentary of arrangements across key criteria was required under the new Code of Audit Practice, including financial sustainability; governance; and arrangements in place to secure economy, efficiency, and effectiveness in the use of resources.

John Gregory highlighted the increased audit fee. He directed members' attention to the findings of the Redmond Review which had examined external auditing arrangements within local government and concluded that fees were insufficient to meet increased demands on external auditors. Additional government funding had been made available to local authorities of offset increased costs. WCC officers had acknowledged the justification for an increased fee.

The Chair stated that regulatory changes had resulted in a significant amount of extra work for the external auditor. There were areas of local government activity that should be subject to a higher level of scrutiny and the Committee had expressed its support for this approach.

Councillor Kettle stated that members' understanding of the scale of financial matters under consideration would be improved by the provision of specific figures within the Audit Plan to provide context.

Rob Powell (Strategic Director, Resources) advised that the Audit Plan was not orientated to provide a breakdown of the Council's Budget, but rather to provide an assessment of materiality set against gross revenue spend. The Council Budget set out the quantum of specific cashflows and cost pressures, including the overall deficit position of the Dedicated Schools Grant (DSG). Specific details could be provided following the meeting if required.

In response to Councillor Kettle, John Gregory advised that the duties placed upon the Audit & Standards Committee referred to within the Audit Plan had been introduced to ensure compliance

with the new requirements specified by the International Standard on Auditing (UK) 540. He suggested that these duties provided an effective framework to enable members of the Committee to scrutinise the draft Statement of Accounts at its next meeting. He commented that the estimates under consideration were substantial, including net pension liability and PPE valuations.

Councillor Kettle stated that provision of supporting evidence would enable the Committee to balance its responsibilities more effectively. In response to the Chair, John Gregory stated that the external auditor would seek to supply details of an order of magnitude provided this did not detract from the core message of the Audit Plan.

Andrew Felton (Assistant Director, Finance) advised that a training and development session would be provided to outline the role of the Committee and support members' scrutiny of accounts.

In response to the Chair, Sarah Duxbury (Assistant Director, Governance and Policy) advised that the Committee's previously scheduled meeting on 27 July 2021 had been converted to a training and development session. This would cover information relating to the Dedicated Schools Grant and Pension Fund accounts.

In response to Councillor Horner, John Gregory advised that a level of materiality set at a threshold of 1.5% of gross expenditure was utilised to detect errors in accounts. If an error was detected below this level, it would be reported but would be unlikely to have a substantial impact on accounts.

In response to Councillor Kettle, Rob Powell advised that the cumulative impact of misstatements judged to be trivial would not be overlooked. The external auditor would report errors below the materiality threshold, enabling a judgement to be made on the overall balance. In these circumstances, appropriate action would be taken, and the Committee would be notified as considered necessary.

There was discussion of the use of the term 'trivial' in this context. Councillor Gifford emphasised that this was a technical term; it was important to reassure Warwickshire residents that public money was not treated casually.

In response to Councillor Feeney, John Gregory advised that an assessment of economy, efficiency, and effectiveness was reached by consideration of the balance of these three elements within the context of the Council's overall position and Medium Term Financial Strategy (MTFS). Grant Thornton would seek to measure the organisation's performance against stated objectives, assess where obstacles were foreseen, and analyse priorities. The process was not orientated to squeeze costs; it sought to clarify what the Council hoped to achieve within the available financial envelope.

Resolved:

That the Committee notes the Annual Audit Plan for 2020/21 from the External Auditors.

3. Warwickshire Pension Fund - Audit Plan and Fee Letter

John Gregory (Grant Thornton) introduced the item, stating that the Audit Plan for Warwickshire Pension Fund was structured similarly to that of the County Council. However, no separate value

for money responsibilities were applicable to the audit of the Pension Fund. He advised that materiality conclusions had been based on a proportion of the net assets of the Fund, rather than gross revenue spend. This was a standard approach to pension fund auditing and provided a more meaningful benchmark. Attention had been given to estimation uncertainty, particularly the valuation of 'level 3' investments which were more difficult to measure.

In respect of pooled investments, Chris Norton (Strategy and Commissioning Manager, Treasury, Pension, Audit & Risk) advised that, once published, the Pension Fund Accounts would make specific reference to investments held with the Border to Coast Pension Partnership. This would provide transparency and enable members to scrutinise arrangements. It was agreed to cover this area at the Training and Development Session on 27 July 2021.

The Chair highlighted the actuarial challenges faced by pension funds in the wake of coronavirus. Debate was ongoing within the sector to assess the potential impact of the Pandemic on life expectancy and its effect on pension fund liabilities. He suggested that this form part of the Committee's training programme.

Councillor Gifford commented that the trend towards investment in private equity presented a challenge; investments would be increasingly difficult to value.

Chris Norton stated that private equity accounted for a relatively small proportion of the total value of the Fund. In March 2021, the value for private equity was 5.2%, or £127m, and level 3 investments (private equity, private debt, and infrastructure) accounted for 11.5%, or £281m.

Resolved:

That the Committee notes the Annual Audit Plan for 2020/21 from the External Auditors.

4. 2020-21 Audit Risk Assessment for Warwickshire County Council

John Gregory (Grant Thornton) introduced the Audit Risk Assessment, stating that it summarised the Council's arrangements across a range of areas. It was produced by officers for the attention of the External Auditor. He advised that the item had previously been submitted for the Committee's attention at the meeting on 25 March 2021. The Committee had proposed some changes which had now been incorporated.

Virginia Rennie (Strategy and Commissioning Manager, Strategic Finance) advised that the Assessment had been updated to reflect estimates and risks relating to projects which had progressed since March 2021, such as Warwickshire Property and Development Group (WPDG). There were no issues of concern to report.

In response to Councillor Gifford, Sarah Duxbury (Assistant Director, Governance and Policy) advised that additional details relating to the handling of two whistleblowing complaints could be provided outside of the meeting. As the Risk Assessment was a public document, it had been determined not to include specific details to maintain the anonymity of those involved. The Chair commented that the existence of two complaints was positive in that it demonstrated awareness of, and confidence in using, the whistleblowing scheme.

In response to Councillor Feeney, Chris Norton (Strategy and Commissioning Manager, Treasury, Pension, Audit & Risk) advised that actuaries had considered the McCloud pensions case and determined that the financial implications for most big employers, which included Warwickshire County Council, were negligible.

Councillor Horner highlighted the potential for the issues raised by the McCloud case to translate more widely across the public sector. He suggested that an awareness of these factors was required; it was not an isolated case.

The Committee approved the highlighted changes incorporated within the updated Audit Risk Assessment.

Resolved:

That the Committee notes the Audit Risk Assessment for 2020/21, including the highlighted changes from the interim submission reported to the Committee in March 2021.

5. CIPFA Financial Management Code - 2020-21 Self-Assessment

Andrew Felton (Assistant Director, Finance) introduced the report, stating that a self-assessment had been undertaken to evaluate the organisation's compliance with the Chartered Institute of Public Finance and Accountability (CIPFA) Financial Management Code. He expressed confidence in the performance of the Finance Team. He stated that the Self-Assessment contributed to a drive for continuous improvement; a realistic and transparent approach had been taken in support of this objective. He stated that compliance with the professional standards set out by the CIPFA Code was a legal responsibility. It was considered that the Council had met these requirements; there were no material areas of concern.

Virginia Rennie (Strategy and Commissioning Manager, Strategic Finance) reported that an initial assessment had been produced by the Strategic Finance Team and circulated to senior management for review. Discussion with other local authorities had been informative, enabling a comparison of approaches across councils. She stated that the document compared favourably with those of other authorities. The Self-Assessment had identified 20 areas where improvements could be sought. She stated that, prior to this exercise being undertaken, measures had already been enacted to make improvements in many of these areas. This validated the findings of the Self-Assessment.

In response to Councillor Kettle, John Gregory (Grant Thornton) stated that the Self-Assessment was not a specific requirement of the external auditor but that it provided valuable background information. He added that the diligent approach taken by officers provided assurance that appropriate financial and governance arrangements were in place.

The Chair praised the quality of the work undertaken, stating that critical self-examination provided a basis for continual improvement.

Resolved:

That the Committee notes the Council's assessment of its compliance with the CIPFA Financial Management Code.

6. Annual Governance Statement 2020/21

Chris Norton (Strategy and Commissioning Manager, Treasury, Pension, Audit & Risk) introduced the report, stating that the Annual Governance Statement (AGS) was a statutory annual report which accompanied the annual accounts. He reported that the document presented to the Committee had been considered by officers, including Corporate Board and a dedicated AGS Panel. He summarised the key features of the AGS which included an updated Code of Corporate Governance, actions delivered as part of the Council's response to COVID-19, and the introduction of a new Risk Management Framework and Change Portfolio of Governance. With the Committee's consent, the AGS would be forwarded to the External Auditors for onward consideration.

Councillor Gifford highlighted the risk of continuing pressure on Special Educational Needs & Disability (SEND) included within the AGS, and the opening of the Warwickshire Academy to provide specialist provision for students with support needs; this was a positive initiative.

In response to Councillor Feeney, Andrew Felton (Assistant Director, Finance) advised that pressure on Adult Social Care services was recognised, but it was not considered to be a key risk of such significance for the Authority to require it to be included within the AGS. He stated that the MTFS would enable funding to be made available to support service delivery in this area. The Adult Social Care precept would provide additional funds. He advised that challenges would not be overlooked, but WCC was not exposed to the same levels of uncertainty experienced by some other local authorities in this area.

The Chair verified that members were aware of the Council's COVID-19 Recovery Plan. He praised the quality of the draft AGS.

Resolved:

That the Committee endorses the draft Annual Governance Statement for onward consideration by the Council's External Auditors.

7. Internal Audit Annual Report 2020/21

Paul Clarke (Internal Audit Manager, Delivery Lead) introduced the report which summarised the results of internal audit work carried out during 2020/21 and gave an overall opinion on the Authority's control environment. He advised that the Pandemic had impacted upon the work of the Internal Audit Team, particularly during the first quarter of the year. However, he reported that the Audit Plan had largely been completed. He advised that the majority of the year's audits were within the moderate category. The proportion of limited assurance opinions had reduced compared with 2019/20 which constituted a positive outcome. An overall moderate assurance opinion had been determined at the year end.

In response to Councillor Gifford, Rob Powell (Strategic Director, Resources) stated that the two audits which had received limited assurance (Pension Administration and Strategic Property) had been undertaken several months ago and the findings did not reflect current circumstances. He advised that progress had been made to strengthen practices in these areas.

The Chair recognised the challenges that COVID-19 had presented for auditors working remotely. He expressed gratitude for the work undertaken by the Internal Audit Team during a difficult year.

Resolved:

That the Committee notes the results of internal audit work completed during 2020/21.

8. Audit and Standards Committee - Annual Report 2020/21

The Chair summarised the areas of the Committee's work during 2020/21 which featured within the Annual Report including the response of the organisation to COVID-19, the implications of the UK's departure from the EU, and the attention given to Internal Audit work in the area of Safeguarding.

The Chair referred to the ongoing difficulty of recruiting a second independent member. He observed that the presence of an experienced independent chair could serve to deter some capable applicants. He indicated that he would be content to stand down and reapply if it was felt that this would improve the outlook for recruitment.

Councillor Horner and Councillor Gifford commented that the departure of the Chair would be a cause for concern and counselled against this course of action.

There was agreement that the report accurately reflected the Committee's work during 2020/21.

Resolved:

That the Committee endorses the Annual Report and agrees that it be forwarded to Council for approval.

9. Work Programme and Future Meeting Dates

The Committee noted the Work Programme and future meeting dates.

10. Any Other Business

There was no other business.

11. 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 Part 1 of Schedule 12A of the Local Government Act 1972.'

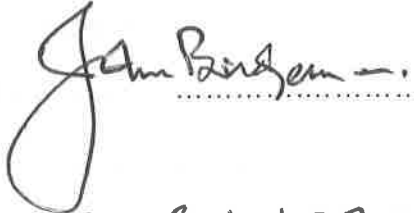
12. Internal Audit Update Report - Interim, Consultancy and Agency Staff

The Committee received a confidential update.

13. Exempt Minutes of the Meeting of the Audit and Standards Committee Held on 25 March 2021 and Matters Arising

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

The meeting rose at 12:10


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Chair
24 September 2021