

**Minutes of the Audit and Standards Committee
Monday 23rd January, 2023 at 6.00pm
in Committee Room 2, the Council House, Dudley**

Present:

Councillor A Lees (Chair)

Councillor D Borley (Vice-Chair)

Councillors S Ali, P Atkins, J Cowell, E Lawrence, J Martin (from Minute No. 33) and A Taylor.

Officers:

B Heran (Deputy Chief Executive) (Chief Executive's Directorate); G Harrison (Head of Audit and Risk Management), R Cooper (Head of Financial Services), and K Taylor (Senior Democratic Services Officer) (Directorate of Finance and Legal) and M Smith (Head of Business Support) (Children Services Directorate)

Also in Attendance:

M Stocks (Grant Thornton External Auditor) – for agenda item no. 5.

In Attendance Via Microsoft Teams:

A Taylor (Senior Principal Auditor) and M Landy (Senior Principal Auditor) (Directorate of Finance and Legal)

T Tobin (Grant Thornton External Auditor) – for agenda item no. 5.

28 Apology for Absence

An apology for absence from the meeting was submitted on behalf of Councillor M Evans.

29 **Appointment of Substitute Member**

There were no substitute Members appointed for this meeting of the Committee.

30 **Declarations of Interest**

No Member made a declaration of interest in accordance with the Member's Code of Conduct.

31 **Minutes**

In referring to the minutes of the meeting held on 23rd November, 2022, Councillor S Ali suggested that, for transparency purposes, the minutes should reflect the vote undertaken by Members of the proposed recommendation to refer the findings of an internal audit report to External Auditors for further investigation, and concerns raised regarding the potential conflict of interest of the presenting officer of the report submitted.

In referring to minute no. 25 – Risk Management of the minutes of the meeting held on 5th December, 2022, it was requested that the third paragraph on page 15 of the report submitted be amended to read that the Director of Finance and Legal clarified that there were currently 454 vacancies.

Resolved

That, subject to the amendment above, the minutes of the meetings held on 23rd November, 2022 and 5th December, 2022 be approved as a correct record and signed.

32 **Change in order of business**

Pursuant to Council Procedure Rule 13(c), it was

Resolved

That the order of business be varied and that the agenda items be considered in the order set out in the minutes below.

33 **Annual Governance Statement**

A report of the Deputy Chief Executive was submitted on the amendments to the Council's Annual Governance Statement for 2021/22, reflecting previous discussions by the Committee.

The Deputy Chief Executive referred specifically to the proposed additional wording included at paragraph 6.4 of the Annual Governance Statement, which was attached as Appendix 1 to the report submitted. The amendment referred to the issues identified with the Council's approach to managing programmes, projects and contracts which would be addressed by the establishment of a Corporate Portfolio Office and Action Plans. It was noted that the Action Plans would be approved by the Audit and Standards Committee and monitored by a variety of groups including the Strategic Executive Board and Cabinet.

Members were advised that the proposed amendment would be included in the Annual Governance Statement for both 2020/21 and 2021/22 retrospectively, if approved.

Arising from the presentation of the report, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) In referring to paragraph 6.4.3 of the Annual Governance Statement, Councillor J Cowell requested clarification on the proposed timescales for the development and implementation of the Action Plans as mentioned. In responding, the Deputy Chief Executive confirmed that the Action Plans could be submitted to the Audit and Standards Committee in April, 2023.
- b) Councillor S Ali considered that some areas within the report did not truly reflect the current position in particular in relation to connectivity and infrastructure including the uncertainty surrounding the delivery of the West Midlands Metro extension and unsuccessful bids for the Levelling Up Fund.
- c) In referring to paragraph 6.4 of the Annual Governance Statement, Councillor S Ali suggested that the proposed amendment was not clear on contract management across all levels and should reflect processes involved.

In responding, the Deputy Chief Executive confirmed that roles, responsibilities and delegation will be considered whilst developing the proposed Action Plans. Members were also advised that there would be further opportunity to discuss whether the issues raised were being addressed appropriately at a future Committee.

Resolved

- (1) That the information contained in the report submitted in relation to the Council's Annual Governance Statement for 2021/22 be noted.
- (2) That the additional wording included at paragraph 6.4 of the Annual Governance Statement, attached as Appendix 1 to the report submitted, be approved for both 2020/21 and 2021/22 retrospectively.
- (3) That the Deputy Chief Executive be requested to submit a further report to the Audit and Standards Committee in April, 2023 in relation to the proposed Action Plans to address the issues identified and support the delivery of programmes, projects and contract management.

33 External Audit Findings Report 2020/21 – Updated

A report of the Director of Finance and Legal was submitted on the external auditor's updated Audit Findings Report 2020/2021 together with the draft Letter of Representation, as set out in Appendix 2, to be submitted by the Council to the external auditors.

M Stocks (External Auditor) was in attendance at the meeting and presented a summary of the audit findings to the Committee, as outlined in Appendix 1 to the report submitted. It was noted that there were a number of amendments to the 2020/21 Audit Findings report in particular relating to property valuations, since it was originally presented to the Committee on 20th September, 2021.

In presenting the report submitted, the External Auditor provided an outline of the areas of work that the external auditors had undertaken between July, 2021 and January, 2022. Reference was made to the work in addressing issues identified in relation to council housing and land and buildings valuation, which had delayed the audit being finalised and the significant changes needed to the two previous years accounts in relation to other land and building valuations. A summary of the risks identified in relation to the valuation of land and buildings was outlined in page 28 of the report submitted.

Reference was made to the significant estimates in the Council's financial statements in relation to the valuation of pension fund net liability, and it was noted that following adjustments to the share of the quantifiable element which had reduced the Council's net pension liability and increased the return on assets in the other comprehensive income, the Council's share of the total value equated to £6m.

It was reported that the Council did not derecognise Infrastructure assets on replacement, and therefore the external auditors could not conclude that the disclosure was not materially misstated. Members were advised that a Statutory Instrument had been developed by the Department for Levelling Up, Housing and Communities and laid before Parliament in November, 2022. It was anticipated that the Instrument, together with updates to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code, would resolve the majority of the ongoing audit challenges related to infrastructure asset balances.

Reference was made to the key estimates and judgements in relation to the provisions for Business Rate appeals that had been received but not settled at year end. During 2021/22 the Council significantly reduced the value of its Business rates appeal provision. As a result of the 2020/21 accounts still being open, Grant Thornton requested the Council look at the provision for business rate appeals in the 20/21 accounts. This led to the Business rates appeal provision as at 1st April 2021 being reduced by £10.53m and the closing balance at 31st March, 2022 remains unchanged.

In conclusion, the External Auditor anticipated that the revised accounts would be completed within the next couple of weeks for final sign-off of the Financial Statements for the year ended 31st March, 2021 shortly after.

Arising from the presentation of the report, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) In responding to a question raised by Councillor J Cowell in relation to communications in dealing with valuation documents, the External Auditor advised that the Council had recently appointed an external officer to help alleviate internal pressures. It was therefore hoped that this measure would improve communication moving forward and it was evident that progress was being made. The Head of Financial Services concurred with the response and acknowledged that although there continued to be some issues there had been some improvement.
- b) Councillor S Ali shared his disappointment of the lack of improvement to processes in relation to property valuations.

- c) Councillor S Ali referred to the trivial matters within the financial statements, outlined in page 26 of the report submitted, and requested clarification on the process involved should external auditors identify any inaccuracies that needed to be brought to the Council's attention.

In responding, the External Auditor referred to the materiality approach undertaken during preparation of the financial statements, and confirmed that any errors were assessed against a trivial threshold and reported to the Council if considered necessary. Any errors that were below this level would be placed in a control setting in an effort to improve further.

- d) In responding to a question raised by Councillor S Ali in relation to long-term prudential borrowing and the affect this could have on future budgeting, the External Auditor referred specifically to the estimates and judgements in relation to the PFI (Paragon Schools) disclosure. Members were advised that differences had been identified across the split of the unitary payment, between the model used by the Council in comparison to the external auditor's model. However, whilst acknowledging various implications including inflation and change of contracts, the model utilised by the Council was considered appropriate. Should the difference be significantly different in comparison then the external auditors would intervene as necessary. Assurance was given that there were no concerns with this area, however this would continue to be reviewed accordingly.
- e) Assurance was given that there were no areas of concern to be highlighted, however recommendations had been made in relation to land and buildings valuations and the need for a formal process for routine authorisation of journals. The Head of Financial Services confirmed that processes had been developed and would be implemented retrospectively on journal authorisations for a specified limit by the 2023/24 financial year.
- f) Councillor E Lawrence requested further information in relation to the Digital Forensics Work totalling £20,000.

The External Auditor confirmed that the Digital Forensics Group within Grant Thornton UK LLP had provided Freeths LPLP with a data hosting platform in order to undertake an investigative review on behalf of the Council. Members were advised that this was in relation to a legal case with regard to the digital platform and assurances were given that there was no conflict of interest in this area.

- g) Councillor S Ali referred to the proposed fees charged for the Council audit, totalling £103,746, and queried why the Council had allocated an increase in external audit fees up to £330,000 within the Medium Term Financial Strategy to 2025/26.

In responding, the External Auditor referred to the extremely competitive market and the difficulties experienced in the recruitment and retention of experienced and qualified local auditors in order to sustain the existing market. It was noted however that the audit fees for the Council had been relatively low and unchanged for a period of time.

- h) The Chair referred to his recent attendance at an Audit Seminar and the requirement in sustaining high quality standards within the field whilst balancing delivery and profitable gain. The shortage of audit firms and subsequent delays in auditing accounts, together with the increase in external audit fees was acknowledged.
- i) In responding to a question raised by the Chair, the Head of Financial Services confirmed that the delay in providing key information in relation to housing valuations correlated with the amount of time undertaken in processing valuations by Savills UK.

Resolved

- (1) That the information contained in the report submitted on the Council's External Auditor's updated audit findings 2020/2021, attached as Appendix 1, be received and noted.
- (2) That the draft Letter of Representation, as set out in Appendix 2 to the report submitted, be noted and the Chair, following consultation with the Director of Finance and Legal be authorised to sign and date the final version of the Letter of Representation in due course.

34 **Questions Under Council Procedure Rule 11.8**

There were no questions to the Chair pursuant to Council Procedure Rule 11.8.

35 **Exclusion of the Public and Press**

Resolved

That the public and press be excluded from the meeting for the following item of business, on the grounds of the likely disclosure of exempt information relating to any individual(s) and to the financial or business affairs of any particular person (including the authority holding that information) as defined under Part I of Schedule 12A to the Local Government Act 1972, as amended.

36 **Annual Audit Report of the Chief Executive**

A report of the Director of Finance and Legal was submitted summarising the audit work undertaken in relation to the Directors of Children's Services, Public Health and Wellbeing and Assistant Director of People and Inclusion, who reported directly to the Chief Executive for the financial year 2021/2022.

In presenting the report submitted, the Head of Audit Services advised that eight assurance audits had been undertaken, of which five had received minimal or limited assurance ratings. It was noted that these ratings had been given due to either a critical action being raised or a number of high priority actions. Further information in relation to the critical and high priority actions were outlined in Appendices 2 and 3, respectively, attached to the report submitted.

In addition to the five assurance audits, three other reviews were undertaken and in total 164 actions were raised. A full list of the audits, including the number of actions raised and assurance ratings, were detailed in Appendix 1 to the report. Mention was also made of the number of unimplemented actions from the previous reviews. It was further noted that the information included in Appendices 2, 3 and 4 had previously been agreed with Directorate Management and the comment recorded under Implementation Update was the current status of the actions that had been raised. Critical and High priority actions would be followed up by Audit Services.

The Head of Audit Services further commented on the 13 areas of audit activity undertaken relating to Schools, the findings of which would be considered by the appropriate School Governing Body/Committee.

Members were informed of the performance in relation to the issuing of final reports and Management's responses to the audit, and it was noted that there were a number of audits within People and Inclusion and Children's Services where the final report had been issued significantly later than the target date.

Reference was made to post-audit questionnaires issued on completion of an audit, in that eight of the nine returned stated they had received a very good or good service and one satisfactory service.

Arising from the presentation of the report, Members made comments and raised questions on individual audits, which were responded to at the meeting. The Committee would be provided with written responses to the following questions:

- a) Progress in relation to processes in enabling quality checks on payroll transactions.
- b) Clarification as to whether credentials had been removed from users that were no longer processing late payroll transactions.
- c) Further details in relation to whether individual payments could be processed for carers with children under Special Guardianship Orders.
- d) Further clarification as to whether all relevant staff within the Public Health and Wellbeing Directorate had attended Contract Management training.

Further to comments made, Members raised concerns that many actions had been unimplemented since 2016/17, and that the Chief Executive, Deputy Chief Executive and relevant Directors should be reminded of the importance and priority needed in relation to audit and recommendations made, with assurances demonstrated to Members accordingly.

Following further discussion, it was agreed that the Chair and Vice-Chair together with the Head of Audit Services would arrange a meeting to discuss the future reporting format of Annual Audit reports including a summary of the findings and outstanding actions.

Resolved

- (1) That the information contained in the report and Appendices to the report submitted on audit work undertaken for those Directors and Heads of Service who reported directly to the Chief Executive for the financial year 2021/22, be received and noted.
- (2) That Officers provide Members with detailed responses to questions raised at the meeting.
- (3) The Chair and Vice-Chair together with the Head of Audit Services discuss the future reporting format of Annual Audit reports including a summary of the findings and outstanding actions.

The meeting ended at 7.30pm

CHAIR