

**Minutes of the Audit and Standards Committee
Monday 20th September, 2021 at 6.00pm
in Committee Room 3, the Council House, Dudley**

Present:

Councillor A Taylor (Chair)
Councillor J Roberts (Vice Chair)
Councillors S Ali, P Atkins, D Borley, J Cowell, P Dobb and M Evans

Officers:

I Newman (Director of Finance and Legal); R Cooper (Head of Financial Services); G Harrison (Head of Audit Services), A Uppal (Finance Manager), and L Jury (Democratic Services Officer).

Also in attendance:

M Stocks – Grant Thornton (External Auditors) – for agenda item nos. 6 and 7
B Heran – Deputy Chief Executive – for agenda item nos. 6 and 7
M Cox – Team Manager (Valuations and Transactions) and P Mountford – Head of Planning and Regeneration - for agenda item no. 7
S Reece – Corporate Health and Safety Manager – for agenda item no. 10

10 **Apology for Absence**

An apology for absence from the meeting was submitted on behalf of Councillor B Gentle.

11 **Declarations of Interest**

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

12 **Minutes**

Resolved

That the minutes of the meeting held on, 23rd June, 2021, be approved as a correct record and signed.

13 **Annual Governance Statement 2020/2021**

A report of the Director of Finance and Legal was submitted on the Council's Governance Statement (AGS) for 2020/2021 which was required to be included as part of the annual Statement of Accounts and detailed how the Council had complied with its local Code of Corporate Governance, the effectiveness of its governance framework and described any significant governance issues and how they would be addressed.

In presenting the report, the Head of Audit Services advised that the Council Audit Regulations required the Council to produce an AGS to be signed by the Chief Executive and Leader of the Council and would be published and included as part of the Statement of Accounts. The AGS was an assessment of the effectiveness of the Council's governance framework, as detailed in its local Code of Corporate Governance.

It was noted that the draft AGS had been considered by the Strategic Executive Board (SEB) on 22nd June 2021, and subsequently updated in line with their comments and published with the draft Statement of Accounts in July 2021. The AGS had also been reviewed by the External Auditors, as part of their work on the Statement of Accounts, and their comments had been considered and included in the version attached at Appendix A to the report submitted.

As the AGS covered the financial year 2020/2021 and the subsequent period up to the sign-off of the 2020-2021 Statement of Accounts, governance issues up to the date of this meeting required consideration. Therefore, the AGS had again been reviewed by SEB on 18th August 2021, and it was noted that no further amendments had been required.

Reference was made to paragraph 8.1 of the AGS, which detailed the overall conclusion which stated that with the exception of the issues raised in Sections 5 of the statement, the Council's governance arrangements remained fit for purpose.

In conclusion, the Head of Audit Services advised that the Deputy Chief Executive was in attendance to answer any questions Members may wish to raise.



Arising from the presentation, Members raised questions in relation to Payroll Transactions. In reply, the Head of Audit Services referred to a piece of work that had been undertaken in May 2020, which had noted that improvements had been made, however, work was still to be completed and it was advised that a further review would be undertaken in January 2022. It was noted that processes now in place were more robust than previously and could identify where overpayments had been made and put recovery actions into place. In relation to timescales to address actions of the operations that had received negative assurance ratings, the Head of Audit Services anticipated that all significant findings would be addressed by March 2022.

In response to a question raised in relation to Special Educational Needs and Disabilities (SEND) with regard to its deficit, as stated in 5.2.4 of the AGS, and any implications moving forward, the Director of Finance and Legal referred to a short-term statutory override of the normal accounting practice to allow the deficit to be dealt with in an adjustment account which would cease in 2023/2024. Reference was also made to a potential increase in the level of Government funding next year, with the intention of reducing the deficit to become sustainable from 2023/2024 onwards, however, acknowledging the on-going challenges moving forward.

In relation to a question raised with regard to progress made on Dudley's Integrated Health Care (DiHC), the Deputy Chief Executive advised that the Black Country Integrated Care provision was in its early stages of development. A Chief Officer was currently being recruited and it was anticipated that the position would be filled by the end of December 2021. In relation to the transferring of services, it was noted that no discussions had taken place so far, and it should not be assumed that services would transfer as it may be identified that the Local Authority were the best place to provide the services. The Deputy Chief Executive had been asked to sit on the Board on behalf of the Black Country partnership to ensure that each Council received the best return on their investments, specifically noting the pressure around adult social care and the need to provide good and sustainable care provision being at the heart of any changes. General Practitioners (GPs) provision across Dudley needed to be addressed to ensure equality of access and most importantly for Dudley, ensuring that Dudley received its fair share of NHS money as Dudley would need to bid for its money through the Integrated Care System (ICS). It was noted that an outline plan had been produced by the Integrated Care Provider (ICP) which was out for consultation until mid-October. The Deputy Chief Executive advised that she would provide feedback to Members on the authority's response to the consultation and attend a future meeting once the Chief Executive and the Management Team had been appointed and plans had been finalised to advise on the implications for the Council and its residents.

In response to a question raised in relation to the appointment of the Director of Public Realm, the Deputy Chief Executive advised that discussions were currently being undertaken with Human Resources in relation to advertising the post in early October 2021, and it was anticipated that an appointment would be made before the end of December 2021.

Resolved



That the Annual Governance Statement 2020/2021, as set out in Appendix A to the report, be approved and referred to the Leader of the Council and the Chief Executive to be signed.

14 **Statement of Accounts 2020-2021**

The Committee received a report of the Director of Finance and Legal presenting the Statement of Accounts 2020/2021 for consideration and to inform on the outcome of the audit of the accounts. The Statement of Accounts and the audit of them was the main formal and public report on the financial standing of the authority. A copy of the audited Statement of Accounts 2020/2021 had been circulated separately to Members.

In presenting the report, the Director of Finance and Legal advised that the audit of the accounts was still to be completed and Member's attention was drawn to the recommendation, as set out in paragraph 2 of the report submitted, in relation to the Committee approving the delegation of the approval of a revised Statement of Accounts, to the Chair in consultation with the Director of Finance and Legal, if there were any changes required to the Statement of Accounts as a result of the audit being finalised, subject to the changes having no impact on unusable reserves.

It was noted that the draft accounts had been circulated to Members separately to the agenda, and due to the length and complexity of the statement of accounts, the Director of Finance and Legal delivered a summary presentation of the accounts to the Committee, outlining the authority's funding basis and clarifying the presentation of the accounts from two perspectives: one based on statute and the other based on accounting regulations. It was noted that both these views were reconciled together in one statement known as the Movement in Reserves Statement (MiRS) detailed on page 27 of the accounts submitted, which was then supported by three further statements, a comprehensive income and expenditure statement, a balance sheet and a cash flow statement, and a series of notes.

The Director of Finance and Legal then presented the key messages in a simplified version of the MiRS to the Committee, detailing the end of year 2020 balances in relation to the unearmarked general fund, national non-domestic rates (NNDR) (business rates relief), other earmarked reserves, Housing Revenue Account, unusable reserves (reserves that cannot be used to finance services), restated balance as of 31st March 2020, surplus/(deficit) on services, accounting adjustments (a detailed explanation of the adjustments was set out on in the report), and transfers. It was noted that the year-end balance on the General Fund, had increased during the year due to the additional funding that had been received that had exceeded the immediate in-year financial impact of managing the pandemic, however it was important to note there were still on-going impacts of the pandemic.



In conclusion, the Director of Finance and Legal then presented the implications for the future outlining Dudley's low level of reserves in March 2019 and 2020 in comparison to an average authority nationally and noting that in 2021, Dudley had seen an increase to 24%. It was noted that national average figures were not available at this time, however, it was anticipated that the national average would have also increased. Dudley's low tax Band for a Band D property in comparison to an average metropolitan Band D property was also acknowledged, and as a consequence of a lower Council Tax rate, Dudley had £14.2 million less spending power than it would have if its Council Tax were at the average level for a metropolitan council.

Resolved

- (1) That the information contained in the report on the Statement of Accounts 2020/2021, be approved, and the Chair of the Audit and Standards Committee be authorised to sign and date the Statement of Accounts.
- (2) That the Chair, following consultation with the Director of Finance and Legal, be authorised to approve a revised Statement of Accounts after any amendments required on the valuation of property assets and any other issues, as detailed in paragraph 18 of the report submitted.

15 **External Audit Findings 2020-2021**

A report of the Director of Finance and Legal was submitted presenting to the Committee the Audit Findings Report 2020/2021 from the Authority's external auditors (Grant Thornton) 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.

In presenting the report, reference was made to page 46 of Appendix 1 which provided an outline of the areas of work that the external audits undertake, which included the auditor's opinion on the Council's financial statement, a view in relation to Value For Money (VFM), and other statutory responsibilities.

In relation to the financial statement audit, it was noted that the financial statements provided to the auditors had been prepared to a good standard together with appropriate working papers available from the start of the audit for most areas, with one exception that had delayed the audit being finalised, which related to the valuation of land and buildings. It was noted that subject to receiving the property valuation and other areas of outstanding work, as set out on page 48 of the report, the auditors anticipated issuing an unqualified opinion on the financial statement.



In relation to VFM, reference was made to the change in code this year, which had resulted in the auditors not only reviewing significant risks but were now also required to review a number of other areas such as financial sustainability, governance and economy, efficiency and effectiveness and it was advised that this work was on-going. It was noted that a number of interviews had taken place with Directors and in line with the National Audit Office's revised deadline, the Auditor's Annual Report would be required to be completed no more than three months after the date of the opinion on the financial statements. It was anticipated that the work would be completed by the end of December and the accounts would be submitted to this Committee for consideration.

In referring to significant risks, specific reference was made to page 50 of the report in relation to the override of management controls, and it was noted that although the External Auditors had not considered this to be a significant risk for the Council, it had been identified that there was no formal process for the routine authorisation of journals. The External Auditors had considered that this could expose the Council to the risk of fraud and error and recommended that the Council reviewed its controls on the authorisation and control of journals.

In relation to income recognition, it was noted that the External Auditors did not consider this to be a significant risk due to the controls and procedures that the Council had in place.

Reference was made to two significant estimates in the accounts, one being pensions and it was noted that further information was awaited from the Pension Fund auditor and the Pension Fund Actuary. The other significant estimate related to the valuation of land and buildings and the External Auditor advised that over the years, the Financial Reporting Council had emphasised how seriously they took the valuation of buildings to be accurate and it was reported that work in this area was yet to be completed as the External Auditors were awaiting further information to enable them to conclude their work. It was noted that this was the second year that this had occurred and that warnings had been given last year to strengthen the processes in this area which had not materialised. It was advised that this situation had been escalated to the Chief Executive and the responsible Director as the External Auditors believed this to be an area of concern for them and considered that this reflected poorly on the governance of the Council. Assurance was sought from this Committee to address this issue urgently and the implications, should this happen again next year, were presented.

Other significant risks were presented, as set out in the report, and it was noted that the External Auditors had not identified any significant issues.

In conclusion, the External Auditor advised that the accounts would be completed by the end of October and the revised accounts and VFM conclusion would be submitted to this Committee by the end of December.

Arising from the presentation of the report and appendix to the report submitted, Members made comments and raised questions which were responded to as follows:



- In response to a question raised in relation to the net increase in the valuation of properties from 2019/2020, as set out in the report, the External Auditor advised that it had questioned why Dudley's housing stock had only increased by 2% when comparison figures from other Local Authorities had shown a rise of between 6-16%. However to date, no answers had been received.
- In response to a question raised by the Chair in relation to why the property valuation information had not been supplied to the External Auditors, the Deputy Chief Executive assured Members that the outstanding valuation information had been forwarded to the External Auditors that day and stated that any comments that were received back from the external auditors would be dealt with as a matter of urgency to prevent any further delay. Confirmation that the information had been received by the External Auditors would be emailed to Members the following day. It was stated that processes and resources would be reviewed to ensure that this situation would not be repeated going forward. Resource constraints had played a significant issue in the delay of providing this information and that a review of resources would be undertaken in line with the Future Council's programme, looking at how the Council works, maximising resources already in place, working smarter, increasing Digital usage, and investigating whether it would be more cost effective to use a third-party supplier to produce this information, therefore, enabling Council staff to focus on more detailed work.
- In response to a Member's question raised in relation to the External Auditor's recommendation to review its authorisation and control of journals, the Director of Finance and Legal replied that although there were compensatory controls already in place, the authority would review the process and implement the recommendation.
- In reply to a Member's question with regard to the recommendation by the External Auditor, as set out on page 60 of the report, regarding matters in relation to related parties, the External Auditor undertook to provide the Committee with a response to this issue.

In conclusion, the Director of Finance and Legal confirmed that resolving the work would be likely to require an adjustment to the draft accounts. If the adjustment had no impact on the unusable reserves, this would be dealt with under delegation. However, in the unlikely event that something was identified that would affect the unusable reserves, the accounts would be submitted back to Committee for consideration.

Resolved



- (1) That the information contained in the report submitted on the Council's External Auditor's audit findings 2020/2021, and the Independent Auditor's Draft Opinion report, 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.
 - (3) That the Chair, following consultation with the Director of Finance and Legal, be authorised to sign a revised Letter of Representation, in due course, in the event of the audit work on the valuation of property assets or any other issues
 - (4) That the External Auditor be requested to provide a written response to the Committee on the question raised in relation to related parties.
 - (5) That the Deputy Chief Executive be requested to forward to the Committee, the receipt of the outstanding valuation information to the External Auditors.
-

16 **Treasury Management**

A report of the Director of Finance and Legal was submitted outlining treasury activity during the financial year 2020/2021 and in the current financial year up to the end of July 2021.

In presenting the report, the Director of Finance and Legal made specific reference to paragraph 6 of the report which highlighted that the primary factor in determining the treasury management activity was the cash flow need; seeking to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity.

The Committee were informed of Treasury Management activities twice a year with a report which would then be referred to full Council. It was noted that the authority intentionally aimed not to borrow more money than required in advance, however, last year had been unusual as the strategy had been set before recognising the impact that Covid 19 would make. It was reported that loans had been arranged in advance to finance the pension prepayment that had been due in April 2020, and before the authority were aware of the impact of the pandemic and the level of Covid 19 related grant payments that had since been received from Central Government, which had made a significant difference to the authority's finances. As a result, the authority was carrying more investments than it would normally, and this was still the current position.



Reference was then made to the table on page 91 of the report, which summarised the authority's performance on Treasury Management last year, noting Dudley's net average borrowing rate of 3.63% in comparison to the average client's rate of 5.20%. The Director of Finance and Legal stated that one of the main reasons attributed to this was that Dudley had a long-standing policy of not intentionally borrowing money.

In conclusion, the Director of Finance and Legal advised that the authority's financial position would be kept under review and it may be necessary to undertake some long-term borrowing before the end of the year but only if cash flows indicated that this would be required.

Arising from the presentation, Members made comments and sought clarification on the governance arrangements for undertaking short/long-term borrowing, which was responded to at the meeting.

Resolved

That the information contained in the report submitted on the Treasury Management Activity during the financial year 2020/2021 and up to end of July 2021, be noted and referred to full Council on 11th October 2021, for consideration.

17 **Review of the Code of Corporate Governance**

The Committee received a report of the Director of Finance and Legal on the results of a review of the Code of Corporate Governance.

In presenting the report the Head of Audit Services advised that although there was no legal requirement to produce a Code of Corporate Governance it was considered best practice and it was noted that the authority's code followed the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), "Delivery Good Governance in Local Government 2016.

The guidance set out seven principles of good governance which were then broken down into sub principles and examples were provided on the type of evidence that Councils should have in place to indicate that the principles were being met. The guidance acknowledged that each local authority should review the principles in the context of their own authority and therefore, the Head of Audit Services had reviewed the code in conjunction with a number of Senior Managers, and any amendments required to the code were discussed and agreed with the Strategic Executive Board (SEB). The main changes to the code were set out in paragraph 10 of the report submitted.

Arising from the presentation, Members made comments and asked questions, including the membership of the Corporate Customer Feedback Group, which were responded to at the meeting.

Resolved

- (1) That the information contained in the report on the results of a review of the Code of Corporate Governance, be approved.
- (2) That the Director of Finance and Legal be authorised to undertake the necessary action to incorporate the revised Code into the Constitution.

18 **Corporate Risks Report**

A report of the Director of Finance and Legal was submitted updating Members on the current Corporate Risks and the status allocated by the Risk Owner. Appendix A to the report, outlined details of Corporate Risks which were generally acknowledged as being the most significant facing the Council. In addition to risks tabled in Appendix A, the Committee were requested to identify any additional risks that it considered should form part of the Corporate Risk Register and identify any particular risk for closer scrutiny at the December 2021 meeting of this Committee.

In presenting the report, the Head of Audit Services, advised that Corporate Risks reports were submitted to the Committee four times a year. Since the last report in June 2021, the Head of Audit Services had attended all Directorates and held risk workshops to brief them on the new risk management framework. It was noted that substantial work would be required to improve the understanding of formal risk management and embed an effective risk management framework across the Council and acknowledging that this would take time due to capacity constraints of all those concerned. It was reported that meetings would take place with risk owners over the coming weeks to ensure that risks had been worded and rated in line with the new framework and that appropriate mitigating actions had been identified.

It was advised that the Strategic Executive Board (SEB), at the meeting on 18th August 2021, requested the following changes: an amendment to risk R.242 to incorporate issues in relation to recruitment and retention; the addition of a risk which had been identified in relation to procurement and contract management, and risk R.372 and risk R.373 both relating to regeneration to be combined.

Reference was made to the table set out in paragraph 12 of the report, which provided a high-level summary of the changes in ratings to Corporate Risks, and it was noted that, for a number of risks, the ratings had decreased and the date the risk had last been reviewed by the Committee was also provided. It was noted that risks were now rated in line with the new risk descriptions included in the risk management framework. Appendix A provided the detail on the corporate risks and a risk status update comment.



In conclusion, the Head of Audit Services advised that this Committee, at its meeting on 23rd June, 2021, had selected R.137 relating to Health and Safety to be scrutinised at the next meeting. The Corporate Health and Safety Manager was in attendance to present on the risk to the Committee and answer any questions from Members.

The Corporate Health and Safety Manager presented a summary of the risk which included:

Health and Safety drivers:

- Legal – Health and Safety (H&S) legislation principally the Health and Safety at Work Act 1974 that drives legislation associated with H&S at work, common law duties.
- Morally – duty to protect the health and safety of employees, service users and others who may be affected by the services the Council delivered.
- Economic – seeking to reduce costs, reduce financial liabilities from absenteeism, civil claims, insurance premiums.

Consequences of not managing Health and Safety effectively:

- Legal – fees for intervention (Health and Safety Executive can charge for their time when they have identified a material breach in H&S (£160 p/h), enforcement notices, prosecution, compensation cases.
- Moral – avoid any reputational damage to the Council, reduce complaints, can result in recruitment retention problems.
- Economic – increase in costs identified previously.

The Council's Health and Safety Management Framework – main elements:

- H&S governance – include Corporate Health and Safety Management Group who report to the Strategic Executive Board, Directorate Health and Safety Management Groups and Directorate Health and Safety Liaison Groups.
- H&S policies - procedures and guidance in place to ensure compliance with the Law.
- Training – for general management, risk assessment and skills based.
- Risk assessment – general, manual handling, hazardous substances, fire, Display Screen Equipment DSE (eyestrain, repetitive strain injury, etc.)
- Health surveillance – where there is a known risk associated with the work, Eg. Hand Arm Vibration (HAV), noise, respiratory, etc.
- Risk Management tools – lone workers have access to a data base to check who they are going out to visit (also available to Members).
- Accident/ incident reporting and investigation.
- Audit and review- can identify non-compliance/gaps and produce action plans.



COVID 19 compliance:

- The Health and Safety Team have and will continue to advise and assist other teams to ensure the Council's key services can continue to operate - working with management teams to develop safe systems of working, develop risk assessments for high-risk areas, and carry out assurance audits of workplace arrangements.

Arising from the presentation, Members asked questions which were responded to by the Corporate Health and Safety Manager as follows:

- In relation to a question regarding staff vaccination status, it was noted that it was not mandatory for staff to disclose their vaccination status and reference was made to the request for staff to undertake twice weekly lateral flow testing and follow NHS guidelines.
- In reply to a question raised in relation to the responsibility of risk assessments, it was noted that it was a Line Management responsibility to carry out risk assessments and the legal requirement to carry out consultation with the workforce to increase compliance.

In response to a question raised by a Member in relation to the risk status relating to the risk R.371 – Portersfield Development, the Director of Finance and Legal outlined the practice of the Committee to identify a risk to scrutinise at a future meeting where relevant officers would be invited to attend to answer questions Members may wish to raise.

Resolved

- (1) That the information contained in the report and Appendix A to the report submitted on high level corporate risks, be noted.
- (2) That the information contained in the presentation on risk R.137 relating to Health and Safety and comments made by Members as outlined above, be noted.
- (3) That risk R.366 relating to Cyber Security be identified as the specific risk for in-depth scrutiny at the December 2021 meeting of this Committee.

The meeting ended at 7.50pm

CHAIR



ASC/21