

AUDIT AND MEMBER STANDARDS COMMITTEE

22 SEPTEMBER 2021

PRESENT:

Councillors Spruce (Chair), Ho (Vice-Chair), Grange, Norman, Robertson, Silvester-Hall, White and M Wilcox

70 APOLOGIES FOR ABSENCE

There were no apologies for absence.

71 DECLARATIONS OF INTEREST

Councillor Grange declared a personal interest in respect of agenda item no. 6 as she is a fellow of the Institute of Chartered Accountants in England and Wales. Though she stated that she doesn't work as an auditor and has no intention of working as an auditor.

Councillor Grange declared that she may or may not be the member responsible for the grants referenced in Notes to the Accounts note 35.

72 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 22 July 2021 previously circulated, were taken as read and approved as a correct record.

73 STATEMENT OF ACCOUNTS

Members considered the Statement of Accounts Report and Anthony Thomas (Head of Finance and Procurement) delivered a brief overview of the report. He stated that the deadline for publishing auditing statements had moved to the 30th September and hoped they'd be in the position to get the accounts signed off after the meeting subject to a pension fund issue that is still outstanding. He commented that the external auditor is required to obtain written representation from management which should contain all matters that could affect the Council's financial position in the accounts.

Anthony Thomas went through some of the key numbers in the report. Highlighting that they'd received much less Council tax and business rates, but this had been in part offset by grants and contributions which is shown under operating activities in the report. Before opening the Committee to questions, the Chair commented that as the accounts cover the year of Covid 19 we're looking at unusual figures which hopefully won't appear again.

The Committee suggested that in section 3 part E, the metric be changed to member attendance at events instead of number of member training events. Anthony Thomas responded that there is difficulty in coming up with a measurement that everybody can agree to, but he would take the comments onboard.

There were some concerns on the trend of lack of engagement found in section 3 part B of the report. The Chair was asked whether this should be referred to the Overview and Scrutiny Committee to set up a task group to look at overall engagement and responses.

The Committee questioned page 84 of the report concerning the costs of overheads which

had decreased from 19% last year to 15% this year, asking Anthony Thomas how Lichfield District Council compared to other councils. To which, he explained that despite having benchmark data, it is difficult to compare as councils are all varied and very different to each other.

There were concerns on the incurred loss by Lichfield Housing Ltd and the question was asked whether there were plans to build more houses. Councillor Strachan responded that no decision had been made and the future of Lichfield Housing Ltd was up for discussion in Cabinet.

Councillor Strachan responded to an earlier point raised on the lack of engagement stating that they are looking to carry out better engagement events this year with the communications team and seeking better engagement with Cabinet members.

There were additional concerns on PSP Lichfield Ltd on whether this too would be up for review in Cabinet since the council had incurred a loss due to its 50% partnership with the company. Councillor Strachan answered saying he would pass the question along to Councillor Eadie as the issue falls into his portfolio.

The pension fund was discussed with a suggestion that the Committee should spend more time focusing on this to understand the potential future risks since it is a significant part of the Council's valuation. The Chair was asked whether it would be worth having another session with a briefing paper to provide more insight on this issue. The Chair said he'd look into establishing a working party.

The balance sheet in the report was queried as there was a surplus in assets of 1.1 million pounds. It was asked what the assets were and what plans the Council have for them. Anthony Thomas responded that he believed it was the former garage site. Anthony Thomas was asked whether the loans and investments made to other public authorities were perceived as having a higher risk due to Covid or other factors. Anthony Thomas answered that he does not believe this posed any extra risk.

Note 20 on Provisions were discussed with queries on the dispute in relation to Leyfields and Netherstowe as this appears as a provision on the report rather than a creditor suggesting that the number wasn't agreed at that point in time. Anthony Thomas responded that the number had been agreed with a payment being made this financial year. The committee also questioned, in the same note, that there was a provision for Three Spires, related to the potential fall in income as a result of the impact of Covid 19. On that, Anthony Thomas explained that the council receives 11% of the net rental income from the Three Spires shopping centre, the issue being, the accounts provided by Three Spires are about a year behind so an assumption is made that the income that that will be received is lower because of Covid.

There were concerns on note 35, Related Parties, as the disclosure was not clear on which member held a position with the governing body that received a grant from the Council. Thus, it was suggested that the disclosure be strengthened in order to uphold transparency.

There was a discussion on whether the issues of pensions should go to a task group. The decision was made by the Chair to withdraw his comment of a task group and asked the Committee whether they thought it would be beneficial to have a separate meeting on pension fund accounting.

RESOLVED:

1. The Committee noted the External Auditor's Audit Findings Report (Agenda item 9).
2. The Committee approved the Letter of Representation at APPENDIX A
3. The Committee approved the Councils Statement of Accounts for 2020/21 (attached at APPENDIX B)

4. The Committee approved the delegation of authority to the Chairman of Audit and Member Standards Committee to approve any changes and potentially resign the accounts once we have received assurance from Staffordshire County Council's external auditors in relation to the Staffordshire Pension Fund.

(Councillor Robertson declared a declaration of interest as a trustee and a member of Curborough Community Association.)

74 OVERVIEW OF THE COUNCIL'S CONSTITUTION IN RESPECT OF FINANCIAL PROCEDURE RULES

Members considered the updated Financial Procedure Rules and Anthony Thomas delivered a brief overview of the document and changes to be reviewed. The Financial Procedure Rules set out financial governance arrangements within the council. They are based upon a model set created in 2015 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted by the Council. Anthony Thomas stated that key officers have been consulted regarding updates to the rules, resulting in relatively minor changes. These changes are limited to organisational structure modifications, updates to the governance structure, procedure/legislative updates, and references to the updated Contract Procedure Rules to maintain consistency between the two documents.

Changes for review are coloured in yellow. They will form part of constitution and therefore will be approved by Council, subject to any views made by the Committee. Once approved, training and communication will be undertaken across the council prior to implementation.

The Committee questioned why, on page 23 of the updated rules, a key control of the budget format had been deleted. Anthony Thomas explained that all councils used to report using the CIPFA service reporting code of practice (a standard set of headings), but that reporting responsibility has been removed to allow authors to tailor headings to their council and accountabilities.

The Committee also asked why the 'anti-' prefix had been removed from a reference to anti-corruption on page 35. Anthony Thomas replied that the reason was to use the same headings as other documents, and the prefix had been earlier on in the policy title. There were concerns regarding Appendix A section 4.31 on page 46 - it was asked why the requirement for two employees to be present when opening post was deleted. Anthony Thomas answered that receiving cash in the post is now uncommon, so the risk which led to that requirement being introduced is considerably reduced.

The Committee questioned whether tripling the trigger for the scheme of virement solved a problem that did not exist, as not many virements in range of 25000-75000 pounds are proposed. Anthony Thomas responded that the reason for increasing the trigger to 75000 pounds was to try to use a consistent key decision level, and stated that it is necessary to empower budget holders to move money around as needed throughout the financial year.

It was also stated that a scheme of virement trigger of 75000 pounds is over 0.5% of revenue budget, which was judged to be high to not be reported. Anthony Thomas noted that virements of less than 75000 pounds are reported in money matters reports by documenting movements between strategic priorities. The Council will approve a revised budget for the year around February which will take into account all the virements within the year.

The Committee suggested that an additional point should be added to Appendix A section 1.11 stating that any virements between 25000-75000 pounds must be included in money matters reports. Anthony Thomas agreed to add this point for clarity.

In support of previous concerns, it was pointed out that if someone is repeatedly doing virements for lower amounts, they might not get picked up and this could lead to a management control issue with auditors.

A question was raised regarding how the Financial Procedure Rules get transferred into day-to-day operations for role-specific requirements for ease of use. Anthony Thomas explained that the document will be uploaded to the intranet and employees will be advised of revisions. Each Head of Service and manager have a dedicated business advisor, whose role it is to assist managers in interpreting financial guidance and update it if necessary.

The Chair stated his appreciation for the high quality of the Financial Procedure Rules document and the clear marking of changes for review.

RESOLVED:

1. The Committee noted the contents of the Financial Procedure Rules report.
2. The Committee provided views on the revised Financial Procedure Rules.
3. The Committee recommended to Council to approve the revised Financial Procedure Rules, subject to the consideration of and views provided by the Committee.

75 LOCAL AUDIT UPDATE

Anthony Thomas provided the Committee with an update on the Local Audit Framework. He highlighted that the item was important due to a lot of information coming out over a short space of time and the fact that there will be an important decision for the Council to take in the immediate future about what it does about external audits.

Anthony Thomas went over the recommendations from the Redmond Review and Ministry of Housing and Local Government (MHCLG). He stated that they'd received an update from MHCLG in spring about any outstanding issues that weren't addressed in their initial response. Redmond for instance recommended a systems leader but now MHCLG are recommending the Audit, Reporting and Governance Authority (ARGA). He noted that MHCLG announced on the 28th July a consultation on its proposals as part of the government's response to the Redmond Review.

Anthony Thomas highlighted an issue to be addressed on the ongoing capacity in the pipeline of local auditors and about Parish Councils. He went on to say that a draft consultation response based upon using the sector from consultation events that the PSAA have undertaken was included in the Local Audit Report which had been run past the Chair and the Vice Chair.

Anthony Thomas stated the current partnership with Grant Thornton ends 31st March 2023 and thus a decision will have to be made on whether the Council wants to opt into the new sector-led approach for an external auditor or whether the Council will find its own auditor. However, there are very few external auditor firms so would be challenging if that decision is made. He concluded that the decision needs to be made around December 2022.

Anthony Thomas commented that the Council also need to procure a housing benefits subsidy auditor. He explained that the Council currently use the same firm which makes sense for two reasons: we don't get differences of opinions and some of the work that us done in the audit of accounts can also be used in the certification process.

Anthony Thomas then took questions from the committee.

RESOLVED:

1. The Committee noted the contents of the report and the requirement to decide whether to opt in to the PSAA sector led procurement by Full Council by January 2022.

76 OVERVIEW OF THE COUNCIL'S CONSTITUTION IN RESPECT OF CONTRACT PROCEDURE RULES

Clair Johnson (Procurement Manager) gave an overview of the Contract Procedure Rules report which sets out the contract and procurement governance arrangements for the Council. Clair Johnson put forward an updated set of contract procedure rules which is based on a best practice set suggested by Chartered Institute of Public Finance and Accountancy.

Clair Johnson explained that the major changes were removals to references to directors and any parts of the Council that no longer are in place. She also highlighted that she'd updated the thresholds and processes done at each threshold of value in line with the £75000 key decision level. Also included in the report was a reference to a piece of forthcoming work that will be carried out by Member Task Group, looking at Social Value, Sustainable Procurement and Think Local policies. Clair Johnson then took questions from the Committee.

The Committee questioned paragraph 5.6, asking what circumstance would mean that the use of the wrong procurement pathway could continue. Clair Johnson answered that would only be the case when concerning small differences. The committee suggested alterations to paragraph 5.8, stating it might useful to include reference to 'not deliberately underestimate the value of a contract'. Clair Johnson replied that she would add that in.

The committee also queried how this would operate in practice, how would it be controlled and how would it be known that the estimates are proving to be wrong. Clair Johnson replied that the risk can't be eliminated entirely so preparation such as keeping up with market developments, benchmarking, soft-market testing before going to the market will ensure that the estimated contract value is correct.

Clair Johnson was asked to clarify how dynamic purchasing systems worked. She explained that a dynamic purchasing system is similar to a framework agreement but that it remains open for new suppliers to join throughout its term rather than being closed. This can encourage smaller suppliers to get involved as there tends to be minimal 'joining' requirements compared to a framework agreement. They work best in dynamic markets where there are low barriers for entry for new suppliers.

The committee noticed an error on page 39, a missing hyperlink to a document on sustainable procurement policy. Clair Johnson commented that she would update this.

RESOLVED:

1. The Committee noted the contents of this report.
2. The Committee provided views on the revised Contract Procedure Rules.

77 AUDIT FINDINGS REPORT FOR LICHFIELD DISTRICT COUNCIL 20/21

Mr David Rowley (external auditor) presented the Audit Findings for Lichfield District Council year ended 31 March 2021 and detailed the key findings and other matters arising from the audit in preparation of the Council's financial statements. Mr Rowley commented that the Council had prepared a very good set of accounts and had a strong control environment in place.

Mr Rowley stated that there was one investment confirmation that they couldn't get assurance for, but that matter had now been resolved so can come off the report. He further comments that there were no issues or key concerns, in section two of the report, in the area of material management override of control or bias. He additionally highlighted a risk, detailed on page 8, on improper revenue recognition, however, he continued that this is more relevant in private

sectors.

On section 3, Mr Rowley comments that there's not a lot to report at this stage as the regulators recognise the difficulties in the sector in terms of delivering the work at the moment. He stated that the work should be completed over the next two months with aim to report to the committee in full, with their annual report, at the next Audit Committee meeting in November.

The Committee was then given the opportunity to ask questions.

The Committee asked if there were any other transactions, apart from Leyfields and Netherstowe, that the auditor would consider to be outside of normal business. Mr Rowley responded that there wasn't.

The Chairman commented it has been a difficult period through Covid and was amazed that the Council was still able to produce the accounts and publish them by July. Expressed his thanks for the efficient production of the Statement of Accounts.

Resolved – recommendations in conjunction with Item 4, Statement of Accounts.
Voted and agreed on recommendations

78 WORK PROGRAMME

The Chairman commented that the Work Program looked light for November and queried whether it would be possible to get a paper on pensions in by November. Anthony Thomas said he would try to get a briefing paper on pensions in. He also suggested an alternative option of the actuary doing a presentation which would provide an opportunity for questions from the committee. However, this would likely be more expensive and the Committee rejected this option.

(The Meeting closed at 7.40 p.m.)

CHAIRMAN