

# **AUDIT AND MEMBER STANDARDS COMMITTEE**

**12 NOVEMBER 2020**

## **PRESENT:**

Councillors Greatorex (Chairman), Ho (Vice-Chair), Checkland, Grange, A Little, Robertson, Spruce and White

Observer: Councillor Strachan, Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

Officers in Attendance: Miss W Johnson, Ms Rebecca Neill and Mr Anthony Thomas

## **14 APOLOGIES FOR ABSENCE**

There were no apologies for absence received.

## **15 DECLARATIONS OF INTEREST**

Councillor Grange declared a personal interest in any discussion relating to the capital spend at Friary Grange Leisure Centre as she was a Friend of the Friary Grange Leisure Centre.

Councillor Grange also declared a personal interest in respect of agenda item no. 9 GDPR/Data Protection Policy as she was working with a technical company in the GDPR area.

## **16 MINUTES OF THE PREVIOUS MEETINGS**

The Minutes of the Meeting held on 22 July 2020 previously circulated, were taken as read and approved as a correct record and the Minutes of the Special Meeting held on 7 October 2020 also previously circulated, were taken as read and approved as a correct record as well.

## **17 MID-YEAR TREASURY MANAGEMENT REPORT**

Mr Anthony Thomas (Head of Finance and Procurement) delivered a Presentation on the Mid-Year Treasury Management Report, which covered the projected mid-year (30 September 2020) Treasury Management performance in 2020/21.

The impact of removing the investment in property budget was highlighted and the effect of lower council tax/business rates income and grants. Mr Thomas said there was a significant collection fund deficit projected in 2020/21 (council tax and business rate income) and said the deficit and grants would impact on the council's balance sheet at 31 March 2021. Mr Thomas explained that the government's mandate suggests that deficits are to be spread over a three-year period and there were indications of further assistance from the government with these collection fund deficits, although no details were yet known.

The strategic investments current values were illustrated at 31 March, 30 September and 31 October and the projected earmarked volatility reserve figures were explained as held to manage the type of risk. (Mr Thomas warned that this was very volatile at the moment and a lot of the book loss could either get reduced or increase).

The Treasury Management Practices were reviewed and Mr Thomas said these were all supported by Arlingclose guidance and had been shared recently with the Internal Audit team. Minor changes had taken place and they had suggested that they be reviewed by this committee and then go to full council for approval. This was being done so we were compliant with the internal audit recommendations and to ensure the Prudential Indicators were all compliant.

Questions were asked about the collection fund deficit and how Lichfield District Council compared to other authorities, but Mr Thomas said that this was hard to compare as it depended on demographics/nature of business rate payers etc. Even so, it was felt we were at the lower end of the spectrum of deficit collecting. In the projections, approximately 5% for non-collections had been assumed based on research undertaken across a cross section of authorities. Mr Thomas was asked about the investments at other authorities as Croydon LBC had recently been issued with a S.114 notice and he confirmed we had no investments with that authority and reminded the committee that while upper tier authorities were avoided, all investments would be monitored in the future. It was noted that the council has an investment with Monmouthshire and yet this was a top tier authority. Mr Thomas said he believed all authorities in Wales were unitary councils but he agreed to check on this and report back via email to the committee members. He said he believed that the Welsh government were potentially able to be more financially supportive of local authorities than in England.

The forecasting spend to date figure was queried and Mr Thomas said some projects had not progressed and this would be revisited, so he anticipated that figure would come down significantly. The investment in the property company income was queried and it was explained that all of the budgets related to the former investment in property. These budgets had now been removed from the MTFs, although the loan to the property company was still assumed. However, at this stage the loan had not been requested by the company and therefore the interest receivable assumed in the MTFs would not be receivable. It was noted that this was a relatively low level value and was only assumed for a five-year period, in line with the terms of the loan agreed by council. A question was asked regarding investments in call accounts (one with HSBC and one with Lloyds) holding £2m worth of funds. Mr Thomas explained that it was problematic trying to get counter-parties to take our cash at the moment and so he was trying to place it in a risk-managed level, in terms of the entire portfolio.

- RESOLVED:-** (1) The Report was reviewed and noted;  
(2) The Prudential Indicators contained within the report were reviewed and noted;  
(3) The Committee reviewed and recommended to Council for approval the updated Treasury Management Practices shown at Appendix D.

## 18 CIPFA FINANCIAL MANAGEMENT CODE

Mr Anthony Thomas (Head of Finance and Procurement) provided the committee with a report on the CIPFA Financial Management Code and he explained the key points in more detail.

Mr Thomas advised that this code had actually been conceived pre-Covid and the drivers around it had been what had happened at Northamptonshire City Council. It was meant to help provide long term sustainability for local governments by setting out some principles and standards. (Mr Thomas said he felt it would be applicable to every single sector not just local authorities). He explained that 2020/21 was a shadow year for these principles to be trialled and then it was envisaged in 2021/22 it would go live. He said after having visited each area of the code, he felt LDC was compliant with the majority of the code but there were a few minor things we needed to action i.e. to continue to develop the approach to budget consultation in line with the new engagement strategy.

Mr Thomas said that the new service and financial planning process to provide a more robust MTFs had been implemented in 2020/21, and a lessons learnt exercise would be undertaken

to see what could be improved for future years. He said he had built a 25-year revenue model as a consequence, which he would like to develop and build in more on the capital element so that the nature of the transactions were also listed. It was queried if it was realistic to have a 25-year revenue model and Mr Thomas said he felt it was beneficial as it would paint a picture and, he believed, could identify funding gap trends and enable financial planning for projects over a longer cycle in terms of assessing financial stability.

Engagement with key stakeholders was highlighted and it was hoped, with the help of the new Communications Manager, engagement could be improved upon and we could notify people how we spend their money. Mr Thomas said, with regards to financial stability, we currently do two separate reports: financial and non-financial, and these reports could be integrated.

The balance sheet risks were reviewed, and where it was recognised that four risks had been identified, it was questioned why the pension risks were not included. Mr Thomas explained that local authority deficits were statutorily mitigated on the balance sheet through an unusable reserve and to undertake a projection the Actuary would need to be involved in addition to the assessment at the end of the financial year.

**RESOLVED:-** The Report was reviewed and it was noted that:-

- The publication of the Financial Management Code and the requirement for it was to be applied from 1 April 2020;
- That the first year, 2020/21, is a shadow year where Local Authorities are able to demonstrate that they are working towards full implementation which, for the first full year of compliance, would be 2021/22;
- That an initial assessment had been carried out at Appendix A of the council's assessed level of compliance compared to the standards contained in the Financial Management Code.

## **19 INTERNAL AUDIT PROGRESS REPORT**

Ms Rebecca Neill (Internal Audit Manager) presented the Internal Audit Progress Report for Quarter 2 which highlighted work done to the end of September 2020. As advised to the committee previously, there had been a delay in the section's ability to undertake audit work due to council services needing to concentrate on the response to Covid-19. Ms Neill said this had impacted on the plan, follow-ups and KPI's and she stated that a summary of work and performance was detailed at Appendix 1 and performance against the new suite of KPIs which was at section 5. She explained that using the new approach to clear the backlog of audit recommendations and managers as well as the committee having greater visibility of what was outstanding, meant there was a marked progress but there was still work to do. Ms Neill stated that she was confident that a vast improvement would be seen by February's meeting.

In terms of follow-up, Ms Neill stated that the only item to highlight was the GDPR follow-up report which had again received limited assurance. She explained this committee had the option to call-in the ICT Manager and Head of Service to February's meeting if they felt it appropriate. She said that a follow-up audit was currently being undertaken and also that some context was necessary as the ICT Manager concerned had been deeply involved in the council's Covid response. She stated that she was hopeful of a more positive progress report from this follow-up. Ms Neill therefore suggested that if the follow-up remained limited assurance again at this second stage, the committee might want to invite the ICT Manager and Head of Service to February's committee meeting to discuss further. Discussions took place around this item and it was felt that waiting until February's meeting was too much of a delay and that the GDPR risk, in conjunction with the risk from the remote working audit (reporting that not all council laptops were encrypted and this was noted as a risk since 2017), assurances were needed as soon as possible. It was agreed that as the actions were due to expire on 31 October 2020 that the responsible manager should provide a "Position

Statement” to all the committee members as soon as possible, which could then decide if a special meeting should be arranged to discuss these risks. This was noted.

As a level of comfort, Ms Neill advised that there had been no data breaches, no specific issues nor irregularities associated with these risks identified.

The proportion of returns of Customer Satisfaction Surveys was queried and Ms Neill was able to report that the number had increased significantly and was now 13 returned out of 18. She said that the team had simplified the process, and this seemed to be improving the returns received. The Covid-19 Flash Audits were discussed. Members were conscious that the welfare and mental health of staff needed to be monitored as it was known a lot of staff had worked many extra hours during the first lockdown and should not be asked to do it again in a second one. Ms Neill said this was part of the productivity flash audit remit which was due to be undertaken shortly.

The Audit team were thanked by the committee members. To achieve 39% of the Audit Plan for the first half year despite the circumstances and to be confident of achieving 90% by the year end was remarkable. All members of the Audit team were congratulated.

**RESOLVED:** The Report was reviewed and noted, and it was agreed that the responsible Head of Service and managers would provide a Position Statement as soon as possible in respect of the GDPR Audit and the unencrypted laptops risk.

## 20 RISK MANAGEMENT UPDATE

Ms Rebecca Neill (Internal Audit Manager) presented the Risk Management Update report which provided the committee with their routine risk management update. She said that the risk profile was changing constantly at the moment but highlighted the changes since July’s meeting. These being:-

SR2 change in score from 9 to 16 so this now becomes the highest rate risk.

Discussions took place around SR2 and it was asked if flooding within the Lichfield district could be included within the SR2 mitigating controls section as it could be that it runs alongside Covid and it is linked to climate change/green agenda. Ms Neill agreed to consider this and report back to Leadership Team.

All other risks remained unchanged but the target score for SR3 had been revised from 2 to 4 to take into account the increased pressures on delivery of the Strategic Plan.

Ms Neill advised that she had reviewed and revised SR1 and SR6 since the previous meeting and welcomed any comments.

She said the progress with service risk registers was ongoing and it was hoped to have the three lines of assurance for each Head of Service soon. Discussions took place around the scoring of risks. Ms Neill was able to advise that while there is a lot of subjectivity involved, debating risk scores is the best way of achieving the “check and challenge”. She was happy with her oversight and this committee’s challenges, such that the scoring methodology was sufficient.

**RESOLVED:** The Committee noted the risk management update and received assurance on the actions taking place to manage the Council’s most significant risks.

## 21 COUNTER FRAUD UPDATE

Ms Rebecca Neill (Internal Audit Manager) presented the Counter Fraud Update report which was a suite of policies which the committee were asked to endorse. Ms Neill explained that the Counter Fraud and Corruption Policy Statement Strategy & Guidance notes were a refresh from last year, as was the Confidential Reporting (Whistleblowing) Policy. She said the Anti-Laundering Money Policy had been updated to include some more relevant legislation and a new policy: the Prevention of the Facilitation of Tax Evasion policy had been written as this had been adopted by other Local Authorities as good practice. Ms Neill said in the past, these policies had been subject to an annual review cycle but recommended that this be increased to a three yearly cycle giving delegation to herself and the Principal Auditor to undertake minor amendments as necessary. Discussions took place around the review cycles and it was suggested these be brought in line with the Risk Management policy which was every four years with a two-year light touch review. Ms Neill agreed this seemed a sensible approach.

Ms Neill said there had been no suspected fraud or whistleblowing in 2019/20 and she hoped to relaunch all the policies after the committee's endorsement today.

It was noted that at Appendix 4 of the Counter Fraud & Corruption Policy Statement Strategy and Guides, the contact for the External Auditors was mentioned and it was queried if an explanation of their role could be inserted as they performed different functions to the Internal Auditors. This was agreed.

The wording in the Confidential Reporting (Whistleblowing) Policy was questioned as some areas did not seem to actively encourage whistleblowing. Ms Neill said she would look at this again and especially reinforce this message in terms of training.

The new Tax Evasion policy was reviewed and it was asked if some detail of how possible breaches may be investigated could be explained.

**RESOLVED:** (1) The Committee noted the contents of the Counter Fraud update report and endorsed:-

- (a) The Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes (refresh at Appendix 1);
- (b) Confidential Reporting (Whistleblowing) Policy (refresh at Appendix 2);
- (c) Anti-Money Laundering Policy (refresh at Appendix 3);
- (d) Prevention of the Facilitation of Tax Evasion policy (new policy at Appendix 4).

(2) That the review cycle for all these policies be extended from annually to four years around the elections cycle with a two-year light touch review (unless there is a major change required in accordance with legislation/best practice) with minor amendments (e.g. job title changes) delegated to the Shared Head of Audit/Principal Auditor to undertake.

## 22 GDPR/DATA PROTECTION POLICY

In the absence of Ms Christie Tims (Head of Governance & Performance/Monitoring Officer), the Chairman presented the report and said it was an update on the actions taken since the implementation to ensure the Council remains compliant with the General Data Protection Regulations (GDPR).

Comments were that the risk descriptions should be phrased from the residents' perspective rather than the council's perspective. It was agreed that the assurance levels be reconsidered and updated to show the impact on residents as the victims of any transgressions. This was noted.

The committee asked for an addition of “any subsequent legislation” to be inserted in the policy. It was also suggested that an addition to the scope of the policy referencing a specific section on members responsibility and actions, as well as officers. It was also recommended that the impact on GDPR compliance during the pandemic, with staff working from home, be referenced in the policy.

**RESOLVED:-** (1) The Committee received the report and noted the ongoing work to improve assurance of compliance with the General Data Protection Regulations (GDPR); and

(2) The Committee approved the updated Data Protection Policy and Appendix A making the above observations and comments and granted delegated authority to the Head of Governance & Performance to undertake minor changes such as job titles and links as necessary in future.

## **23 WORK PROGRAMME**

The Work Programme for the Audit & Member Standards Committee 2020/21 was considered, and it was noted that there were fewer items for the March agenda compared to the February and April’s meetings. It was therefore suggested to spread out officer and members time, the items be reviewed and moved if possible to even out the agendas for each meeting. This was agreed.

(The Meeting closed at 7.40 pm)

CHAIRMAN