AUDIT AND MEMBER STANDARDS COMMITTEE

3 FEBRUARY 2021

PRESENT:

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

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

Officers in Attendance: Mrs L Fowkes, Mrs J Irving, Miss W Johnson, Ms R Neill, Mr K Sleeman, Mr A Thomas and Ms C Tims

Also Present: Mr J Gregory, Ms L Griffiths, Mr A Sohal & Mr D Rowley – Grant Thornton

24 APOLOGIES FOR ABSENCE

There were no apologies for absence.

25 DECLARATIONS OF INTEREST

Councillor Grange declared a personal interest in any discussion relating to the 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 GDPR/Data Protection as she was working with a technical company in the GDPR area.

26 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 12 November 2020 previously circulated, were taken as read and approved as a correct record.

An update was given by the ICT Manager, Kevin Sleeman. All laptops had now been successfully encrypted and USB sticks cleared and a further update on GDPR would be discussed under agenda item no 6 – Internal Audit Progress Report, following concerns at the previous meeting.

27 TREASURY MANAGEMENT STATEMENT AND PRUDENTIAL INDICATORS

Mr Anthony Thomas (Head of Finance and Procurement) delivered a Presentation on the Treasury Management Statement and Prudential Indicators, which covered the financing and investment strategy for the forthcoming financial year.

The Capital Strategy shown at Appendix A was explained and key updates were:-

Capital bidding forms part of service and financial planning process;

Proposal for early repayment of Burntwood Leisure Centre capital investment of £979k to generate annual savings of £140k – would mean that at the end of March 2021, external debt would temporarily exceed borrowing. However, over the 3-year period, the Council was compliant;

Refocus in the Investment in Property section from the Property Investment Strategy to enhanced information on the current portfolio;

In line with the action included in the CIPFA FM Code assessment a longer-term capital investment plan has been incorporated; (25 years)

This plan is currently based on "broad brush" assumptions which include population growth and demographics.

Mr Thomas explained following Council approval, the Capital Programme had removed the Property Investment budgets which has a significant impact on the balance sheet and projections but also the treasury management strategy and budget. The renewal of the waste fleet and the new Leisure Centre would increase the borrowing need, and this was currently being budgeted to be funded through a lease type arrangement and external borrowing. Graphs illustrated the capital programme comparisons from last year to this year and also capital funding graphs and cumulative borrowing needed to reflect the much lower capital programme recommended.

The Chief Financial Officer's Assessment was highlighted and although the removal of the Property investment Strategy by the Council means the overall level of risk has significantly reduced there were, in his opinion, still risks and so he has assessed the current risk as a material level of risk.

Mr Thomas explained the Minimum Revenue Provision Statement for 2021/22 at Appendix C which sets out the Council's policy of using the asset life method for making prudent provision for debt redemption. He said each year the Council must approve this statement which would include an allowance for finance leases that appear on the Council's balance sheet i.e. Waste Fleet was in this category.

The Treasury Management Statement / Annual Investment Strategy at Appendix D & E was clarified and very little had changed from last year, Mr Thomas said the only proposed change was on the investment holding limits based on Arlingclose advice to remove the overall Money Market fund limit of £21m. They recommend that this limit be removed because at present the risk of moving into other sectors was higher. Mr Thomas said the four strategic fund investments total £8m at this time and as there was a prudential indicator for longer term investments of £10m, it was proposed that a further investment of up to £2m to achieve higher returns is made to take the Council up to the £10m limit. Further strategic investments would only be undertaken after taking advice from Arlingclose and with the agreement of the Cabinet Member.

Balance sheet projections were illustrated, with key messages, and Mr Thomas said although it was projected there would be a large deficit on the collection fund at 31 March 2021 (due to the impact of Covid-19 and the award of business rate reliefs), this would be transferred to the revenue budget over a 3 year period. The statutory nature of Collection fund accounting was explained and, after taking into account Section 31 grants, should have a minimal impact on the Council's revenue budget.

Mr Thomas explained that IFRS16 for leases has been deferred until 1 April 2022. He added that the Secretary of State and Government had made a lot of announcements recently regarding the level of commercial income, predominantly to do with borrowing to invest in property. Basically, Government wanted to see local governments reduce its dependence on commercial income from these sources and so there were a number of initiatives to achieve this aim e.g. the PWLB consultation response which had been announced. Mr Thomas said we would be asked to confirm there was no intention to buy investment assets that were primarily for yield in the current or next 2 financial years. As S151 Officer he would need to confirm he was content with plans and they were within acceptable use of PWLB. Local councils could be prohibited from accessing the PWLB if they planned debt for yield activity and Her Majesty's Treasury could restrict local authorities from borrowing and had powers to issue penalties, suspend access, insist on repayment of loans with penalties or even review the prudential framework in its entirety. Mr Thomas also said it was announced the previous day there was to be a consultation on the prudential code which was also aimed at strengthening provisions. It stated clearly that borrowing for debt for yield investment was not permissible which was another indicator that CIPFA and the Government were looking to stop this type of activity.

Prudential and local indicators were illustrated for information and prudence measures.

Questions were received relating to the capital receipt of Leyfields and Netherstowe which had been referenced in the Capital Strategy although its receipt was subject to planning approval being granted. Mr Thomas said if this sale did not happen, the Capital Strategy/Capital Programme would have to be reviewed and alternatives sought. Mr Thomas said a recommendation had been included in the Cabinet MTFS report to delegate to the Head of Finance & Procurement and the Cabinet Member to identify alternative funding in the event the land was not sold.

The level of general reserves was discussed as three scenarios had been prepared. Mr Thomas said the central scenario was, in his opinion, a realistic and deliverable scenario and he was comfortable with the level of reserves. He also said that within that budget there were a number of risk contingencies built into the MTFS i.e., contingencies for sales, fees and charges and business rate estimates, because of risks around retail rent income. The retail risks were discussed as the Council owned properties in the Lichfield city centre and the values have reduced quite significantly because of lower income streams and these would need to be subject to ongoing monitoring. It was highlighted that a number of the Council-owned properties were relatively new which would mean maintenance obligations/liabilities would start to accrue and so these had been built into the plan.

RESOLVED:- That Members consider the Treasury Management Strategy Statement and highlight any changes or recommendations to Cabinet in relation to:

(1) The Capital Strategy and Capital Programme, outlined in Appendices A & B;
(2) The Minimum Revenue Provision Statement for 2021/22, at Appendix C, which sets out the Council's policy of using the asset life method for making prudent provision for debt redemption;
(3) Treasury Management Strategy Statement for 2021/22 including proposed limits shown at Appendix D. The only change being proposed is based on Arlingclose advice to remove the £21m overall investment limit for Money Market Funds to manage credit and liquidity risk;
(4) The plan to undertake a further Strategic Fund Investment up to £2m;
(5) The Investment Strategy Report (Appendix E) including the proposed limits for 2021/22;
(6) The Capital and Treasury Prudential Indicators for 2020-25 in the financial implications section;
(7) The Authorised Limit Prudential Indicator shown within the financial implications section.

And that Members also note:

(8) The Public Works Loans Board (PWLB) response to the consultation on changes to lending terms.

28 REDMOND REVIEW REPORT

Mr Anthony Thomas (Head of Finance and Procurement) delivered a presentation on the recently published Redmond Review Report which was an independent review of Local Authority financial reporting and External Audit. Mr Thomas advised that initially the report was to be an update on the review, its findings and recommendations. However, during the report drafting, the Government had announced its response as part of its finance settlement and therefore this had also been incorporated into the report.

The key issues/key findings and recommendations and the Government response were illustrated by Mr Thomas. The main issues were highlighted:-

- The level of accounts signed off by the deadline;
- External Audit fees;
- Sustainability of the Audit market – 3 firms hold 80% of market.

Mr Thomas said he had looked at the implications for the Council and felt they were likely to be:-

- Higher External Audit fees – the Council had already included a budget pressure of £8k p.a. from 2021/22;
- There was a risk of moving the audit deadline to 30 September which was a concern as it could become a competing demand for the finance staff as the MTFS development work commenced July/August to be completed by the following February and this would be problematic;
- The potential use of Internal Audit as an assurance tool, which could reduce duplication and lead to more effective use of audit resources.

Discussions took place around the External Audit market generally and Mr Thomas said the audit framework and financial reporting of accounts were meaning a lot more complex work was expected of the External Auditors. He felt this would continue until the audit framework was addressed. It was agreed that auditing Local Authority accounts was not like any other audits: they were prepared in line with accounting standards but they were also subject to a number of statutory elements and therefore demanded different skillsets and expertise. Mr Thomas said that having more smaller companies may potentially reduce fees but they would need to recruit and train staff and therefore a significant investment would be required.

Mr Gregory from Grant Thornton advised that the PSA Ltd. procurement process had made the deliberate choice of awarding the External Audit market 40% Grant Thornton, 25% to another and 15% to another and that is why only three firms have the 80% of the market. Overall Grant Thornton welcomed the Redmond Review Report.

Members agreed that Local Government finances were notably more complicated now with layering IRFS on top of statutory requirements and it was noted that public objections can cause further work, delay and expense. It was agreed that External Audit requirements were reactive and often in response to corporate issues and therefore there was a sector wide problem.

RESOLVED:- The committee noted the contents of the report.

29 INTERNAL AUDIT PROGRESS REPORT

Ms Rebecca Neill (Shared Head of Audit) presented the Internal Audit Progress Report for the period to 31 December 2020 (Quarter 3). She advised that the audit opinion remained reasonable at this three-quarter stage of the year. She advised that 67% of the audit plan had been completed which remained a strong performance against audit's main KPI which was to deliver 90% of the plan by year end. She added that Covid-19 was still having an effect on services and their ability to respond to audits which is in turn impacting on other audit performance measures at Section 5 of the report. She reminded the committee that these were new PI's introduced with challenging targets, but that they should continue to be strived for in normal times. Members agreed that, in what had been an interesting year, it was heartening to see how far the audit programme had come.

Ms Neill summarised the positive direction of travel in audit follow-up implementation rates, highlighting 107 actions outstanding in comparison to the 230 outstanding actions which were in place at the start of the new system for follow up, last year. Members' attention was drawn to the Appendix of the report which was a summary of all the detailed audit reports the members receive.

Matters raised at the last committee were discussed, namely the high priority finding in the Remote Working Audit, regarding unencrypted laptops and the GDPR limited assurance follow-up audit. Ms Neill summarised the progress to date, which was that a position statement was sent to members from management in November 2020 and that an audit follow-up report had been sent to members in January 2021. She said that there were 9 unencrypted laptops at the last follow-up and that this had now reduced to zero. In terms of the GDPR follow-up, there were now 4 High and 2 Medium priority actions outstanding. Ms Christie Tims, Head of Governance and Performance, provided an update and was pleased to report that, subject to verification by the internal audit staff, 99% of all actions as of the previous day had been completed. There were only 2 items outstanding on the project plan which related to the medium priorities on the audit and everything else had been completed by the end of January. She thanked the IT staff involved as all actions were now in place and she assured members that a forward plan to maintain datasets was now to be implemented. Ms Neill assured the actions would be followed up until all the recommendations were implemented. Members requested that a progress report come back to the next committee meeting.

The number of high priority actions were discussed, and members requested more information on which of the high priority actions had been outstanding, post January 2020. Ms Neill said she would provide more detail for the committee.

There was a query on the payroll audit report, relating to the transition to a new payroll provider, as there was only 5 months to go on the current contract. Councillor Strachan said a report was on the Cabinet agenda for the forthcoming week and Ms Tims confirmed that there was a preferred supplier and reassured the committee that they could meet the deadline.

Ms Neill was asked if the Capital Strategy audit also looked at disposals and if they were involved with the issue regarding the disposal of Land at Netherstowe and Leyfields open spaces. Ms Neill said she would check the scope of the audit and report back but internal audit was not reviewing that particular issue. Ms Tims advised that she was currently in the final stages of awarding the procurement of this independent external investigation and this item would be added on to the Work Programme for the March or April meeting.

The Procurement audit was discussed as the only limited assurance report. Mr Thomas gave assurance that the new procurement team were working through this plan. Mr Thomas said one of the actions was the approval of a procurement strategy, which had been done. He believed the other high priority was to update the contract register and he knew the team were engaging significantly with services to get the contract register updated. Ms Neill assured the members that the same process for procurement would apply as to GDPR and a follow-up of the audit would be provided.

RESOLVED:- The committee noted the contents of the report.

30 RISK MANAGEMENT UPDATE

Ms Rebecca Neill (Shared Head of Audit) presented the report which provided the committee with their routine risk management update. She said there was an update to SR2: Resilience Risk (at the request of the previous committee meeting) to include flooding and climate change within the mitigating controls section. She explained that an update to this risk description had been made to account for Covid variants and the third national lockdown. This risk was already at the highest score and so could go no higher.

Ms Neill reported there were no changes in other scores to report this time. She went on to say that SR1: Finance and SR2: Resilience remained the two highest risks and remain out of “risk appetite”. Members’ attention was drawn to the potential emerging risks, i.e., forthcoming elections/turnover of staff in key posts/transition to new payroll provider and potential of no sunset clause on regulations allowing remote council meetings going beyond early May 2021.

Ms Neill said a lot of positive work had been undertaken in terms of the sub-strategic risks, which were the risks at head of service level. Draft risk registers were now in place which mirrored the strategic risk register, bringing in the three lines of assurance linking back to the service plan objectives and the strategic objectives.

Members raised concern about the emerging risks associated with running the May 2021 elections during the pandemic, in terms of not only potential disenfranchisement of the electorate but the effect on staff, volunteers and potential candidates. Examples were of nomination papers not being signed due to self-isolation, not being able to visit people for canvassing, front line staff needing training, volunteers not having their vaccines, polling stations being unsuitable, emergency proxy votes being required for the newly diagnosed etc. Ms Tims said the matter was heightened and the team were investing a lot of time in planning for this election, making sure it had contingencies in place to mitigate as much risk as possible. She advised there was a risk register and project plan developing and agreed it was a massive undertaking for such a small authority with limited resources and that further national guidance was expected.

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

31 THE ANNUAL AUDIT LETTER FOR LDC

The Chairman introduced Mr John Gregory from Grant Thornton who advised that both he and Ms Laurelin Griffiths were leaving their External Audit roles for Lichfield District Council and he introduced Mr Avtar Sohal as the replacement Engagement Lead and Mr David Rowley as the replacement Manager.

The Annual Audit Letter for Lichfield District Council year ended 31 March 2020 was presented by Mr Gregory of Grant Thornton. He said members would be familiar with the content as it was a summary of the audit findings report tabled in the autumn. He advised that it was a relatively smooth audit again this year and gave credit to Mr Thomas and his finance team for providing a good set of accounts. He advised that although they had identified Covid as a significant risk this did not have much impact on the audit.

RESOLVED:- The committee noted the Annual Audit Letter for Lichfield District Council year ended 31 March 2020.

32 CERTIFICATION WORK FOR LICHFIELD DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2020

Ms Laurelin Griffiths from Grant Thornton provided a verbal update on the Certification Work for Lichfield District Council for year ended 31 March 2020 which was the certification for the housing subsidy claim. Ms Griffiths stated that this was usually an update given in November but because of Covid the deadline had been extended to end of January and so the certified subsidy claim was submitted on 18 January and was for just over £14m. The certification was after an adjustment of £122 and contained an extrapolated error of £10. Ms Griffiths thanked

Pat Leybourne and the benefits team for all their help over the last couple of months as it did take longer than it would normally.

33 AUDIT COMMITTEE LDC PROGRESS REPORT AND UPDATE - YEAR ENDED 31 MARCH 2021- KEY MESSAGES

Mr John Gregory from Grant Thornton provided a verbal progress report and update and explained that it was a relatively quiet time in terms of the Local Authority audits, so not much to report. He said Mr Sohal and Mr Rowley would be starting to plan the 20/21 audit very shortly and work towards this year's timescale which was 30 September deadline. Mr Sohal explained there would be a few changes in terms of their approach this year which were driven by the new accounting and audit standards. This included more value for money conclusion work and reporting and looking more in to ISA540 (which was around estimates) and advised members that they would see a lot more work and reporting going forward around these topics, which represented additional work. This was noted and the Chairman thanked Mr Gregory and Ms Griffiths on behalf of the committee for all their hard work and wished them well and welcomed Mr Sohal and Mr Rowley.

34 WORK PROGRAMME

The Work Programme for the Audit & Member Standards Committee 2020/21 was considered, and it was agreed to add both GDPR and the Netherstowe & Leyfields independent external investigation to next month's agenda items.

(The Meeting closed at 7.37 pm)

CHAIRMAN