

# **AUDIT AND MEMBER STANDARDS COMMITTEE**

**25 MARCH 2021**

## **PRESENT:**

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

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

Officers In Attendance: Mrs J Irving, Miss W Johnson, Ms R Neill, Mr A Thomas and Ms C Tims

Also Present: Mr Avtar Sohal (Grant Thornton UK LLP) (External Auditor) and Mr David Rowley (Grant Thornton UK LLP) (External Auditor)

## **35 APOLOGIES FOR ABSENCE**

There were no apologies for absence.

## **36 DECLARATIONS OF INTEREST**

Councillor Checkland advised the committee that in respect of agenda item no. 12 he was a member on the planning committee.

Councillor Ho declared a personal interest in respect of agenda item no. 4 as non-domestic rates were mentioned and his family own a restaurant in Lichfield and pay non-domestic rates.

Councillor Grange declared a personal interest in respect of agenda item no. 6 (GDPR) as she was working with a technical company in the GDPR area.

Councillors Greatorex and A Little both declared personal interests in any discussion relating to the Staffordshire County Council's Pension Plan contributions as they were both members of Staffordshire County Council's Pension Committee.

## **37 MINUTES OF THE PREVIOUS MEETING**

The Minutes of the Meeting held on 3 February 2021 previously circulated, were taken as read and approved as a correct record.

Councillor Robertson referenced the action arising from the previous meeting regarding the committee having the detail of the high priority recommendations outstanding since post January 2020. He stated that on reviewing the information on the 4 outstanding actions received, he would like further assistance regarding the Payment Card Industry Compliance outstanding action and asked that the relevant manager provide an update report to the next meeting.

## **38 REVIEW OF ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY**

Mr Anthony Thomas (Head of Finance and Procurement) delivered a Presentation on the Review of Accounting Policies and Estimation Uncertainty for the Statement of Accounts 2020/21 and explained that best practice recommended that they are approved by this Committee. Mr Thomas advised that the full list of Accounting Policies as produced in the Code of Practice for 2020/21 was shown in a table at Appendix A of the report and the Council's proposed Accounting Policies list for the 2020/21 Statement of Accounts was shown

at Appendix B of the report. He advised that there were some minor amendments highlighted in blue for ease of reference whereby some changes have been made to the financial year specified and fixed assets had been updated to property, plant and equipment. There were also some slightly more fundamental changes that related to the policy for financial assets shown at fair value. Overheads and support services and component accounting and a policy for surplus assets as mentioned last year by members of this committee had been added.

Mr Thomas advised that the Code of Practice required that the judgements that he (as Head of Finance and Procurement) had made applying the Council's Accounting Policies must be disclosed. Disclosure of such critical judgements was made to enable users of the Statement of Accounts to better understand how the Accounting Policies are applied and to make comparisons between authorities regarding the basis on which these judgements are made. The critical accounting judgements included in the accounts related to:-

- Assets and liabilities for the Joint Waste Service;
- The pensions guarantee with Freedom Leisure;
- Business Rates appeals.

In terms of key sources of estimation uncertainty, the following was highlighted:-

- International Accounting Standards 1 and 540 cover this area;
- Assumptions about the future and other major sources of estimation uncertainty are disclosed in the Accounts;
- Disclosures are restricted to assets and liabilities whose carrying amount is dependent on estimates that are difficult, subjective or based on complex judgements and where re-estimation may have a material impact.

Mr Thomas advised of his Estimation Uncertainties for 2020/21 and assurances were explained:-

- Pension Liability – Estimates provided by the Pension Fund Actuary – LDC gain assurance from Staffordshire County Council Pensions Committee and Staffordshire County Council Pensions Team;
- Other Land and Buildings and Fair Value Based Assets – Estimates provided by External Valuer - LDC gain assurance from the Estates Team as have qualified property professionals in-house;
- Business Rate Appeals – Estimates based on value office agency statistics – LDC gain assurance from benchmarking through the finance team staff;
- Bad Debt Provisions – Estimates provided by the Corporate Debt team – LDC gain assurance by the finance team and actual budget holders.

Members thanked Mr Thomas for his comprehensive report and queried whether the investment in Lichfield Housing Ltd. meant we should be preparing consolidated group accounts and, if not, should there be an Accounting Policy for this. Mr Thomas agreed to look at this in the future as no need for consolidated group accounts yet in his opinion.

- RESOLVED:-** (1) The Committee approved the Council's proposed Accounting Policies that will form part of the 2020/21 Statement of Accounts (*with suggested amendment in relation to interests in Companies and other entities to reflect the investment in Lichfield Housing Ltd*);
- (2) The Committee approved the Council's approach to the Critical Accounting Judgements and Key Sources of Estimation Uncertainty that will be considered in completing the 2020/21 Statement of Accounts;
- (3) The Committee agreed to delegate to the Head of Finance and Procurement the ability to make further changes to the accounting policies to reflect the subsequent release of new or updated guidance.

## 39 INTERNAL AUDIT PLAN, CHARTER & PROTOCOL 2021/22

Ms Neill (Shared Head of Audit) introduced Members to the proposed Internal Audit Plan, Charter and Protocol for the 2021/22 financial year. She advised that LDC's Leadership Team, which included the Council's Section 151 Officer, had been consulted. Ms Neill confirmed the level of resources are commensurate with last year – approximately 286 days and also confirmed there had been a 90% achievement of the audit plan target - the only adjustment moving forward in to this year's plan was the planning audit. The Chairman congratulated the team and everyone involved for achieving 90% of the audit plan during such a difficult year.

The Committee considered the report and noted the Internal Audit Plan which was a work programme for the Internal Audit section at Appendix 1. The refreshed Charter and Protocol were also considered at Appendix 2 and 3 and the minimal changes to job titles were highlighted as Mr Andrew Wood would replace Ms Neill as Audit Manager mid-June.

Ms Neill reminded members that during 2020/21 a trial 12 month extension to the shared agreement with Tamworth Borough Council to include the use of LDC's Auditor resources was coming to an end and while the trial had been successful in respect of customer feedback and performance against KPI's (which is reported in the internal audit's performance reports) from her perspective, it was suggested that the 12 month extension be extended for a further 12 months to allow the new Audit Manager to fully appraise in terms of the future direction of the service.

Members noted that ICT was detailed in the audit plan as "to be confirmed" and as a lot of risks discussed recently were in this field it was asked that this be sooner rather than later. Ms Neill advised that as the ICT provision was up for tender next year and the IT risk was such a dynamic area, prospective bidders for the tender would be asked to risk assess and propose their suggested plans. This was noted.

**RESOLVED:-** The Committee considered and approved the amended Internal Audit Plan, Charter and Protocol for 2020/21 as no issues were raised.

## 40 GDPR

Ms Rebecca Neill (Shared Head of Audit) provided an update regarding the latest GDPR audit follow-up and said members should have now seen a second follow-up audit on GDPR circulated recently. She advised that out of the 10 outstanding actions (6 high and 4 medium), 8 were found to be fully implemented and there were only 2 partially implemented. These were (1) completing the process that we have GDPR compliant contracts with all third party processors and (2) ensuring the process for obtaining consents be completed.

Ms Neill said the team would continue to track these actions through to implementation and advised that in the next audit update members should see further progress. Ms Neill said a lot of attention had been given to this subject as a consequence of this committee's tracking and an improved staff awareness had been an outcome. She felt it was a significant success of this committee and this was agreed by members. Ms Neill was therefore pleased to report that the revised audit opinion on GDPR had now moved from a limited assurance to a substantial assurance.

**RESOLVED:** The Committee noted the GDPR Update Report.

The Chairman, on behalf of the committee, thanked Ms Neill for all her hard work and dedication shown during her role as Shared Head of Audit at LDC and wished her every success in the future.

#### 41 **ANNUAL REPORT ON EXCEPTIONS AND EXEMPTIONS TO PROCEDURE RULES 2019/20**

Members received the Annual Report on Exceptions and Exemptions (Waivers) to Procedure Rules from Ms Christie Tims (Head of Governance & Performance/Monitoring Officer). She apologised that this annual report had been delayed due to the pandemic disrupting the work programme and other urgent matters on previous agendas taking precedence but advised that the report was an annual requirement of the Contract Procedure Rules and applicable for the 2019/20 financial year. The level of exceptions and exemptions (waivers) granted during this period were shown in Appendix A of the report together with a rationale for each waiver as requested last year by the committee. Ms Tims advised that a trend analysis had also been provided to illustrate any trend.

Discussions took place around the next year's report which was nearing completion for 2020/21 as it was suspected the pandemic may have caused an increase in waiver requests. Ms Tims confirmed this and said that there was also now more staff awareness of the Contract Procedure Rules as the organisation had an in-house Procurement team able to assist and advise officers.

A query relating to the relevant EU limit and how this was likely to change moving forward as regards us leaving the EU was received and Ms Tims said she would check this and report back to the committee members via email.

**RESOLVED:-** The Committee noted the Exceptions (Waivers) 2019/20 set out within Appendix A of the report.

#### 42 **AUDIT PLAN (INCLUDING PLANNED AUDIT FEE 20/21)**

Mr Sohal from Grant Thornton presented the External Audit Plan for the year ending 31 March 2021 which provided an overview of the planned scope and timing of the statutory audit of Lichfield District Council for those charged with governance. He advised that the format had been refreshed although the content was generally similar to the previous years' audit plans.

Members' attention was drawn to the significant risk work which is going to take place. Mr Sohal stated that any audit under ISA240 always presumed a risk of fraud, however, this risk had been rebutted for the council as they do not believe there is going to be a material risk or incentive for the council to mistake revenue or expenditure. Mr Sohal also said that under ISA240 there was a risk over management over-ride which is a concept where managers may be able to obscure and change figures by inserting journal entries and manipulating figures. He stated that this was a standard audit risk which cannot be rebutted and so they will be doing a lot of work around journals/estimates and making sure there is no evidence of this. Mr Sohal said other work would include pension valuation estimates, property valuations in respect of land and buildings and investment properties because there is a high risk of material uncertainty and the estimation process is quite complex as experts have to be involved and data reviewed. He confirmed that the External Auditors would be looking to seek assurance that these figures were not materially misstated.

Attention was drawn to the Materiality section in the report and it was highlighted that when assessing materiality this year they had tried to make sure it is consistent with the materiality presented in the prior year's financial statement so work to £840k. It should also be noted that they have taken out the impact of any additional expenditure re: Covid-19 when calculating material levels.

The Value for Money arrangements was emphasised and Mr Sohal said they had already identified one significant risk so far which was around the planning issue already mentioned. He explained that it may be that policies may not have been applied correctly and so he said further work around this would be done to see if there was any specific value for money conclusion risk and if there was anything they needed to report to members.

Mr Sohal advised that currently they were not able to confirm an audit fee in the Audit Plan for this year as this is going through a process of moderation with the Public Sector Audit Appointments to make sure the audit fee is representative of the work needed to be done and consistent across the audits which are carried out in the public sector space. Mr Sohal said he hoped to be in a position to be able to advise members at the next committee meeting in April.

#### **43 INFORMING THE AUDIT RISK ASSESSMENT - LICHFIELD DISTRICT COUNCIL 2020/21**

Mr David Rowley from Grant Thornton presented a report - Informing the Audit Risk Assessment Lichfield District Council 2020/21 which included a series of questions on particular areas e.g. arrangements re: fraud/laws and regulations/going concern/related parties/accounting estimates and the responses received from the Council's management which is carried out annually. He said alongside the report, there was a separate Appendix providing the detailed responses from management to the questions. He asked that members consider whether the responses in both documents are consistent with their understanding and whether there are any further comments they wish to make. He advised that this was part of the two way communication required by the auditing process which is adapted if standards change as this one had changed due to ISA540 but broadly it is consistent year on year.

Mr Rowley explained that accounting estimates was a big area of focus for External Auditors this year due to a change in regulations and the key areas had already been covered by Mr Thomas and Mr Sohal and were at the back of Agenda item 9. He said there was a need for them also to present to the committee how the accounting estimates had been derived at and asked for any comments.

Discussions took place around other arrangements outside the accounting estimates and Mr Rowley explained that the External Auditors would be looking at material fraud in a material misstatement for larger value items/high level issues. Members' attention was drawn to the fact that pleasingly there were no instances of material fraud at the moment as it stands.

**RESOLVED:-** The Committee noted the Informing the Audit Risk Assessment report for Lichfield District Council 2020/21.

#### **44 WORK PROGRAMME 2020/21**

The existing Work Programme 2020/21 was considered and it was noted that there was one meeting left in this municipal year to deal with all outstanding matters.

Ms Tims advised that the Independent External Investigation item would need to move forward on the Work Programme to the next meeting to be held on 27 April 2021 as the report was not yet available. This was noted.

#### **45 EXCLUSION OF PUBLIC AND PRESS**

There was no exclusion of public and press as the restricted item was not considered.

#### **46 INDEPENDENT EXTERNAL INVESTIGATION**

To be discussed at next meeting.

(The Meeting closed at 7.10 pm)

CHAIRMAN