

**AUDIT COMMITTEE
19th January, 2021**

Present:- Councillor Wyatt (in the Chair); The Mayor (Councillor Jenny Andrews), Councillors Cowles, Vjestica, Walsh and Mr. J. Barber (Independent Person).

Gareth Mills and Thilina De Zoysa, Grant Thornton (External Auditors).

135. DECLARATIONS OF INTEREST

There were no Declarations of Interest made at the meeting.

136. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

There were no members of the press or public present at the meeting.

137. MINUTES OF THE PREVIOUS MEETING HELD ON 24TH NOVEMBER, 2020

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 24th November, 2020.

The final report of the external inspection of Internal Audit, which took place late last year, would be submitted to the March meeting of the Audit Committee. However, the draft report gave a finding of general conformance with the Public Sector Internal Audit Standards. It should be noted that there were only 3 possible outcomes of an inspection i.e. general confirm, partial confirm or do not confirm, therefore, it was the best possible result for the Authority to achieve.

Resolved:- (1) That the minutes of the previous meeting of the Audit Committee be approved as a correct record of proceedings.

(2) That the response received in respect of Minute No. 132(2) (Risk Management Directorate – Assistant Chief Executive) be circulated to all Committee Members.

(3) That the final report of the external inspection of Internal Audit be submitted to the March meeting of the Audit Committee.

138. OVERVIEW OF CORPORATE GOVERNANCE

Sharon Kemp, Chief Executive, gave the following powerpoint presentation on Governance, Audit and Risk:-

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Personal Oversight

- Monthly receipt of Internal Audit reports
- Regular Monitoring Officer meetings
- Quarterly Statutory Officer meetings:-
 - Complaints
 - Human Resources
 - Internal Audit
 - Whistleblowing
- Quarterly External Audit meetings
- Review and sign off of the Annual Governance Statement

Strategic Leadership Team

- Internal Audit:-
 - Review Annual Plan and Annual Report
 - Regular review of progress against Plan and reports issued
 - Monthly reviews of outstanding actions
- Quarterly review of Corporate Risk Register

Covid

- Gold and Tactical Group
- Hierarchy/workstreams
- Actions and decision making
- Threat and Risk Assessments

Discussion ensued with the following issues highlighted:-

- The majority of the Council's services were running as they had been pre-pandemic
- One of the first Councils in the country to post its decision records on the website. The same process for delegated decisions under the remit of Covid was also used
- Emergency Cabinet meetings had been held as and when needed
- Open and transparent discussion with Grant Thornton, External Auditors

The Chair thanked Sharon for her presentation and for her support to the areas of interest for the Audit Committee.

139. **MID-YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING REPORT – 2020-21**

Consideration was given to the report presented by the Head of Corporate Finance outlining the mid-year treasury review which also incorporated the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's Prudential Indicators.

The review, as set out in the Appendix submitted, provided detail of mid-year performance against the plan, the key changes to the Council's capital activity (the PIs) and the actual and proposed treasury management activity (borrowing and investment).

With regard to investments, the primary governing principle remained security over return and the criteria for selecting counterparties continued to reflect this.

The Council would maintain its strategy of being under-borrowed against the capital financing requirement and continue to use local authority short term borrowing to meet all borrowing requirements as the most cost effective approach in the current financial climate. The position would remain under review with an update on the Strategy being submitted to Members within the Budget and Council Tax 2021/22 report to Council in March, 2021.

With regard to governance, strategies and monitoring were undertaken by the Audit Committee.

The report illustrated how the underlying economic and financial environment remained difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encouraged the Council to continue maintaining investments short term and with low risk counterparties, the downside of such a policy being that investment returns remained low. This situation had been further exacerbated by the economic impact of the Covi-19 pandemic, that had seen the Bank of England base rate fall to 0.1%.

As the Council continued to utilise the short term borrowing market to generate interest rate savings as part of approved budget plans, the level of short term borrowing will continue to rise. As a result of this, the Council increased its prudential indicator for borrowing volumes with a maturity date less than 12 months to 25% of total borrowing as part of the 2020/21 Treasury Management Strategy. Whilst the Covid-19 pandemic has seen severe impacts to the global economy, its reduction in the base rate had also led to a significantly reduced cost of short-term borrowing, enabling the Council to generate greater savings from its Strategy.

On 26th November PWLB had made a significant change to their long-term borrowing rates decreasing them all by 1%. The key features of this change were to allow local authorities to access cheaper long term borrowing but under a more restrictive borrowing arrangement that would allow the PWLB to prevent borrowing for commercial investments. The PWLB would no longer lend to any local authority that had any plans to buy investment assets primarily for yield anywhere in their capital programme. The immediate impact of this decision had seen PWLB 50 year borrowing levels fall to 1.5% and below but with that short-term borrow falling, to as little as 0.3% for 3 months, for example. The Council

kept interest rates under constant review within its borrowing strategies and decisions on the mix of long-term and short-term borrowing.

The Strategic Director for Finance & Customer Services confirmed that the basis of the Treasury Management Strategy, the Investment Strategy and the PIs (aside from the under 12 months indicator referenced above) had not changed from that set out in the approved Treasury Management Strategy (February 2020).

Discussion took place with the following issues raised/clarified:-

- The short term borrowing strategy would continue to be utilised whilst ever the current economic situation remained. A trigger would be activated should interest rates start to rise on long term loans and the strategy reviewed
- There had been slippage in the capital schemes as a result of Covid-19
- The PWLB would no longer allow long term borrowing to a local authority whose capital programme contained projects solely for commercial investment
- Rotherham's portfolio of borrowing was mixed in terms of historical borrowing of higher interest rates which would be refinanced as and when appropriate

Resolved:- That the report be noted.

140. ANNUAL AUDIT LETTER

Gareth Mills, Engagement Lead, reported that Grant Thornton had issued an unqualified opinion on the Council's financial statement on 4th December, 2020, and presented the Annual Audit Letter (AAL) 2019/20 summarising the external audit work in relation to the 2019/20 audit plan and highlighted the findings in relation to the following:

Value for Money Conclusion
Audit of Financial Statements
Any Other Matters the external auditor was required to communicate.

The main headlines from the AAL in relation to the accounts and other audit responsibilities were that:-

- An emphasis of matter paragraph had been included in the report in respect of the uncertainty over valuations of the Council's land and buildings, including investment properties, and the Authority's share of the pension fund's property investments given the Coronavirus pandemic. This did not affect Grant Thornton's opinion that the statements gave a true and fair view of the Council's financial position and its income and expenditure for the year

- Whole of Government Accounts – work was being completed on the Council's consolidation return following guidance issued by the National Audit Office (NAO). Once completed, a certificate would be issued (hopefully by the end of the month)
- Management Over-ride of Controls – no issues arising from the work which needed to be brought to the Authority's attention
- The Council's financial statements were produced to a good standard. Some immaterial disclosure misstatements which were not adjusted in the financial statements had been identified but had no impact on the audit opinion issued on 4th December, 2020
- The Annual Governance Statement and Narrative Report had been reviewed and both found to have been prepared in line with the CIPFA Code and relevant supporting guidance. Both documents were consistent with the financial statements prepared by the Council and Grant Thornton's knowledge of the Council

Discussion ensued with the following issues highlighted:-

- The situation with the Dedicated School Grant deficit and the need for higher level funding was a national issue and not unique to Rotherham
- It was felt that the audit deadline for 2020/21 of September would be achievable
- Work had taken place with the Finance Team during 2018/19 around the McCloud judgement

Resolved:- That the final Annual Audit Letter 2019/20 presented to the Council by its external auditors, Grant Thornton, be noted and approved for publication on the Council's website.

141. EXTERNAL INSPECTIONS, REVIEWS AND AUDITS UPDATE

Consideration was given to a report, presented by Simon Dennis, Corporate Improvement and Risk Manager, providing details of recent and current external audits and inspections including the details of arrangements that were in place regarding the accountability and governance for implementing recommendations arising therefrom.

Since the last report to Committee in August, 2020, 5 external inspections, reviews and audits had taken place and 11 recommendations made 2 of which had been implemented and 9 were outstanding. In addition 3 of the ongoing recommendations in relation to external inspections, reviews and audits that took place prior to August, 2020, had now been implemented, 11 remained outstanding/ongoing and one was still awaiting the final report.

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The report included detail of progress being made in respect of the following specific areas and Directorates:-

- Children and Young People's Services
- Adult Care and Housing
- Regeneration and Environment Services
- Finance and Customer Services
- Assistant Chief Executive

Resolved:- (1) That the report be received and its contents noted.

(2) That the governance arrangements that were currently in place for monitoring and managing the recommendations from external audits and inspections, as now reported, be noted.

(3) That the Audit Committee continue to receive regular reports in relation to external audit and inspections and the progress made in implementing recommendations.

142. AUDIT COMMITTEE FORWARD PLAN

Consideration was given to the proposed forward work plan for the Audit Committee covering the period March, 2021 to January, 2022.

Resolved:- That the Audit Committee forward plan, now submitted, be supported and any amendments arising actioned in due course.

143. ITEMS FOR REFERRAL FOR SCRUTINY

There were no items for referral to Scrutiny.

144. EXCLUSION OF THE PRESS AND PUBLIC

Resolved:- That under Section 100(A) 4 of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12(A) of such Act indicated, as now amended by the Local Government (Access to Information) (Variation) Order 2006 (information relates to finance and business affairs).

145. REGENERATION AND ENVIRONMENT DIRECTORATE RISK REGISTER

Paul Woodcock, Strategic Director Regeneration and Environment, supported by Tom Smith (Assistant Director, Community Safety and Streetscene), Simon Moss (Planning, Regeneration and Transport) and Leanne Buchan (Head of Creative Planning and Engagement), presented a report providing details of the Risk Register and risk management activity within the Regeneration and Environment's Directorate.

The Committee sought reassurance on the Risk Register and risk management activity in particular highlighting:-

- How the Register was maintained/monitored and at what frequency
- Involvement of the Cabinet Members for Jobs and the Local Economy, Waste Roads and Community Safety and Cleaner, Greener Communities
- How risks were included on and removed from the Register
- Anti-fraud activity in the Directorate

Discussion ensued with the following issues raised:-

- Consideration of the Register at the Directorate Leadership Team meetings and the Senior Management Team meetings
- 18 risks in total on the Directorate Risk Register of which 3 were included on the Strategic Risk Register i.e. ensuring effective emergency planning and business continuity, to maintain a safe and operational property estate and achieving economic growth
- Work with the Audit Team to look at areas where there were high levels of income/cash handling
- BDR Waste Treatment Plant – insurance, fire suppression works
- Impact of Covid-19 on the local economy and town centre

Resolved:- That the progress and current position in relation to risk management activity in the Regeneration and Environment Directorate, as detailed in the report now submitted, be noted.

146. CORPORATE RISK REGISTER AND UPDATE ON RISK MANAGEMENT ARRANGEMENTS DURING THE COVID-19 RESPONSE

Simon Dennis, Corporate Improvement and Risk Manager, presented the current Strategic Risk Register which summarised the current position of the Register and also provided additional background on the role of risk management in the Council's response to the Covid-19 pandemic.

The report detailed the overall arrangements during the pandemic which had included:-

- The group of appointed Directorate Co-ordinators, together with the Business Continuity Team, continued to meet twice weekly once as part of the Council's Continuity Workforce and Recovery Cell and once as a specific co-ordinators' group
- The Group continued to ensure that directorate situation update reports were submitted to Gold group

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- The cross-Directorate workstreams focussed on specific aspects of the response to, and subsequent recovery from, Covid-19 with each workstream responsible for maintaining an up-to-date “threat and risk document”
- The combined Threat and Risk Assessment for the pandemic was managed by the Corporate Improvement and Risk Manager

Due to the significant level of activity across the Council, the “normal” Corporate Risk Management processes had been suspended with the risks on the Strategic Risk Register continued to be managed by Directorates. However, the Register had recently been revised and considered by the Strategic Leadership Team and the process for regular consideration recommended.

The Corporate Strategic Risk Register had been updated with the removal of one risk and the addition of 3. It was now aligned with the Year Ahead Plan with arrangements in place to ensure ongoing review at SLT. The Council's Risk Management Policy and Guide would now be revised and a refresh required before the new financial year to ensure alignment to current practice.

Resolved:- That the report be noted.

147. INTERNAL AUDIT PROGRESS REPORT FOR THE PERIOD 1ST NOVEMBER TO 31ST DECEMBER 2020

Consideration was given to a report presented by David Webster, Head of Internal Audit, which provided a summary of Internal Audit work completed during 1st November to 31st December, 2020, and the key issues that had arisen therefrom.

The current position with regard to the Internal Audit Annual Plan was set out in Appendix A of the report submitted. The Plan would need to remain flexible and consultation would be ongoing throughout the remainder of the year to allow for any developments relating to Covid-19. Appendix B set out the minor updates to the Plan.

9 audits had been finalised since the last Committee meeting including 5 receiving Substantial Assurance, 5 Reasonable Assurance and 1 Partial Assurance. Audit opinions and a brief summary of all audit work concluded since the previous meeting were set out at Appendix C.

There had been no unplanned responsive work into any allegations of fraud, corruption or other irregularity.

Internal Audit's performance against a number of indicators was summarised in Appendix D.

Appendix E showed the number of outstanding recommendations that had passed their original due date, age rated. The number of aged outstanding actions had decreased slightly to 39.

Discussion ensued on various matters contained within the agreed actions section of the report which included:-

- 2 Internal Auditors were now working on Business Grants
- Work had commenced on the 2021/22 Internal Audit Annual Plan and would include any work that had not been completed in the current financial year. The exercise completed by Salford Internal Audit Services to identify IT audits would also inform the planning process
- As a result of the presentation to Assistant Directors/Heads of Service, amendments had been made and realistic dates for completion of actions set. Providing the revised target date was achieved, the number of outstanding actions should reduce over the next 3-4 months

Resolved:- (1) That the Internal Audit work undertaken since meetings of the Audit Committee, 1st November to 31st December, 2020, and the key issues arising therefrom be noted.

(2) That the information submitted regarding the performance of Internal Audit and the actions being taken by management in respect of the outstanding actions be noted.

148. URGENT BUSINESS

There was no urgent business to report.

149. DATE AND TIME OF NEXT MEETING

Resolved:- That a further meeting be held on Tuesday, 23rd March, 2021 commencing at 2.00 p.m.