AUDIT COMMITTEE
23rd March, 2021

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

Messrs. G. Mills and T. De Zoysa (Grant Thornton) were also in attendance.

150. DECLARATIONS OF INTEREST

There were no Declarations of Interest made at the meeting.

151. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

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

152. MINUTES OF THE PREVIOUS MEETING HELD ON 19TH JANUARY, 2021

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 19th January, 2021.

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

153. EXTERNAL ASSESSMENT OF INTERNAL AUDIT AGAINST THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS.

The Chair welcomed Lisa Hinchliffe, Head of Internal Audit, Calderdale Metropolitan Borough Council to the meeting who, together with David Webster, Head of Internal Audit, presented the external assessment of Internal Audit against the Public Sector Internal Audit Standards (PSIAS).

All Local Government Internal Audit departments must comply with the PSIAS which included the need for an annual self-assessment to confirm compliance, with an external assessment at least every 5 years. An external assessment agreed by the Audit Committee had had to be postponed due to the Covid-19 pandemic, however, it was completed in late 2020.

The external assessment was completed by Lisa who had found the department to Generally Conform to the standards, the highest level rating that could be achieved. This meant that the Internal Audit activity had a Charter, policies and processes and judged to be in conformance with the standards. There were some individual areas where further improvements could be made and would become action points in the Quality Assurance and Improvement Programme for 2021/22. The full report was attached as Appendix 1 to the report submitted.

The Chair thanked Lisa for her work on the external assessment.

Resolved:- That the result of the external assessment against the PSIAS be noted.

154. INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

Consideration was given to a report presented by David Webster, Head of Internal Audit, which detailed how Internal Audit was a major source of assurance to the Council on the framework of control, risk management and governance. It was, therefore, important that it operated in conformance with Public Sector Internal Audit Standards.

The current position against the 2020 Improvement Action Plan was set out in Appendix A of the report submitted. Many actions had been completed during the year, but implementation of the plan had been affected by Covid-19 and audit resources being used in other areas. Those actions not completed related to the use of Computer Aided Audit Techniques and did not affect the standard of work carried out by the team.

An updated QAIP has been produced using the results of the external assessment and the resultant actions see (Minute No. 153). Although General Conformance had been achieved, suggestions had been made where appropriate to drive further improvements. Implementation of the actions would be progressed throughout the year.

Discussion ensued with the following issues raised/clarified:-

- The impact of Covid-19 could not be underestimated on the work planned for 2020/21. This had been rolled forward into 2021/22
- Ongoing actions to ensure the quality of work had continued during the year

Resolved:- The production and ongoing implementation of the QAIP based on the internal self-assessment be noted.

155. PROCUREMENT UPDATE

In accordance with Minute No. 131(3) of 24th November, 2020, Karen Middlebrook, Head of Procurement, presented an update on procurement in particular some of the more recent changes to processes and procedures implemented by the Corporate Procurement Team to improve governance and transparency in relation to the awarding of contracts.

The report included:-

- Exemptions from Financial and Procurement Procedure Rules
- Procurement Business Case and Tender Evaluation Reports
- Contracts Register
- Category Plans/Forward Plans

Discussion ensued with the following issues raised/clarified:-

- It was stated throughout all the documents that any declarations of interest should be made at the outset before any possible awarding of contracts
- Trends in purchasing were observed with the aim of establishing the correct process instead of regular one-off spending for the same item
- Regular reporting to the Strategic Leadership Team on certain aspects of procurement as it developed to ensure the momentum of change was retained and that there was a wider understanding across the Council

Resolved:- (1) That the report be noted.

(2) That a procurement update be submitted to the Committee on an annual basis.

156. DEDICATED SCHOOLS GRANT - CENTRAL RESERVE

Consideration was given to a report presented by Neil Hardwick, Head of Finance CYPS, outlining the current and projected overspend on the Dedicated Schools Grant (DSG) and the recovery plans in place to enable Rotherham to operate within its annual allocation and reduce the deficit over future years. It also outlined the national picture on the High Needs Block as part of the overall Dedicated Schools Grant and the additional funding going into education.

Rotherham had been a relatively low funded authority and had seen significant pressures on the High Needs Block for many years and even though the High Needs Budget (HNB) allocation had increased year on year, partly due to Rotherham's low funding baseline compared to neighbouring boroughs and nationally, the budget uplifts had not been sufficient to match the acceleration in demand and increased cost of provision.

Rotherham had seen year on year deficits due to the growing pressure on HNB culminating in a total deficit of £20.4M and an overall DSG deficit of £19.9M after taking account of DSG balances across the various blocks e.g. Early Years. The projected overspend was as a result of a number of factors including an overall increase in Education Health and Care Plans (EHCP) as well as an increase in the number of young people aged 16 to 25 with an EHCP who were now the responsibility of the local authority to fund, an increase in the number of children accessing higher cost provision and an increase in the number of pupils in Alternative Provisions (Pupil Referral Units).

The DfE had recently acknowledged the need to review the national funding formula for allocations of High Needs Funding to local authorities by launching a consultation on 10th February 2021. It proposed changes to the historical spend element for 2022/23 as well as looking at other funding factors in future years.

The report detailed how local authorities had the ability to transfer monies (0.5%) from the Schools Block to the High Needs Block and how the Authority had taken up this opportunity and successfully submitted disapplication requests to the Secretary of State. However, despite the transfer of funding, there was still a projected overspend of £1.9M in the High Needs Block for 2020/21 and estimated overall DSG deficit of £22.1M.

To monitor the DSG central reserve, the Education and Skills Funding Agency (ESFA) launched the DSG Management Plan Template on 16th September, 2020, to replace last year's DfE DSG Deficit Recovery Plan.

The template has been completed by Rotherham to support its recovery plan and submitted to the Schools Forum for approval and to support the 2021/22 School Block consultations.

Clarification was provided on the following points:-

- The DfE was investing £14Bn from 2021-22 and 2022-23 in the Schools Block and the High Needs Block. Rotherham would be receiving an additional £5.5M for Schools and £5.3M for the High Needs Block for 2021/22. The specific allocations for 2022/23 was not known as yet

- In the past Rotherham had had an in year deficit of circa £5M; this year the expected deficit was £2.2M - £1.9M on the High Needs Block and would normally expect Early Years to balance. However, due to Covid-19 and the protection of Early Years settings, in certain circumstances, the Authority has had to double fund where protecting Early Years setting on last year census' rates and some young children had had to go elsewhere and those places having to be funded as well

- In recognition of the national issue in terms of DSG deficits, the Government had introduced regulations during 2020 specifying the deficit must be ringfenced to School resources and must not seek to fund it from General Fund resources

- Most local authorities were taking the same actions as Rotherham i.e. looking at resource centres linked to mainstream schools. Social Emotional and Mental Health (SEMH) was the key issue across most authorities. Rotherham had not had a SEMH special school which meant that the young had been supported in the Pupil Referral Units or, in certain instances, it had led to high cost expensive independent sector placements

- Rotherham had had a high number of out of authority placements which were very costly and received a contribution from the DSG, therefore, had a significant impact on the High Needs Block

- The SEND Sufficiency Phase 2 had started to embed. Most provisions had not opened until September 2020 and would fill as the year progressed. Year on year there would be more effective and value for money placements

- There were financial projections going forward, however, it was difficult to estimate the number of EHCPs and demand on the High Needs Block. Assumptions had been made in terms of year on year growth and the recovery plan and expecting to move to balanced position next year

Gareth Mills, Grant Thornton, stated that regular meetings were held with Neil and Finance representatives to monitor the position of the DSG deficit and the actions the Council had taken. Additional guidance had been issued by NAO last year for auditors in terms of how they should assess and conclude on significant DSG deficits. One of the key areas of the guidance was evidence that the Audit Committee and Members were being appropriately informed of the Council's actions and arrangements in place to deal with DSG. The report submitted and attendance by the officer fulfilled that criteria from an external auditor's point of view.

Resolved:- (1) That the actions being taken to manage the Dedicated School Grant deficit in Rotherham be noted.

(2) That the additional funding allocated in the Government Spending Review and the outstanding Department for Education (DfE) consultation on Special Education Needs and Disabilities (SEND) and Alternative Provision (AP) funding be noted.

(3) That an annual update on the Dedicated Schools Grant be submitted to the Audit Committee.

157. CLOSURE OF THE ACCOUNTS 2020/21

Consideration was given to a report presented by Rob Mahon, Head of Corporate Finance, on the closure of the accounts 2020/21.

The Council had successfully met the 2018/19 timeframes in closing its accounts after the decision to bring forward the timetable for the publication of local authorities' financial statements. However, due to the unprecedented circumstances, last year's closure of accounts deadlines had been extended for 2019/20.

It should also be noted that the volume of audit review, challenge and testing that the external auditors now had to carry out also placed additional strain on the Council's resources. This additional strain would be further exacerbated by the continuing challenge that the Covid-19 pandemic placed on the resources of the Council's Finance function. However, the timescales for the publication of the financial statements had now been extended for the next 2 years. The Accounts and Audit (amendment) Regulations 2021 (SI no 2021/263) would come into force on 31st March 2021 and would revise the statutory deadline for publishing the unaudited financial statements to 31st July, followed by the statutory deadline for publishing the audited financial statements by 30th September.

Under the Accounts and Audit Regulations 2015, local electors could only exercise their rights of inspection and to question the auditor or make formal objections for a single period of 30 working days commencing the day after the unaudited accounts had been published. In order for the inspection period to commence, the Annual Governance Statement and Narrative Report (introduced by the Accounts and Audit Regulations 2015) would need to be published alongside the Council's unaudited financial statements on the Council's website. The timetable for preparing the Annual Governance Statement and Narrative Report was, therefore, being co-ordinated with the publication of the draft unaudited Statement of Accounts to meet this requirement.

The report also set out changes to the Local Authority Accounting Framework:-

- Delaying of the implementation of IFRS16 for a further year. This disclosure, which would see the removal of operational leases, with lessees expected to recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments, would now be reflected in the accounts for 2021/22

- Schools converting to Academy. A further 8 primary schools were expected to convert during 2020/21. The impact on the Council's balance sheet and income and expenditure had yet to be determined but was likely to be material

- Covid-19 grants. The Council had received a high number of high value Government grants throughout the financial year in recognition of the financial consequences of the pandemic. The accounting treatment of the grants would vary depending on their purpose, however, a number would need to be flagged as exceptional items due to their value otherwise distorting the understanding of the accounts.

The external auditor, Grant Thornton, had issued their own opinion on how Covid-19 grants should be treated within the Council's accounts. This would be reviewed and agreement reached on the way forward.

The Council's Statement of Accounting Policies (Appendix B) were reviewed and updated where necessary.

Clarification was provided on the following issues:-

- A number of the Covid-19 grants were reported through the Council's financial monitoring reports i.e. emergency funding the Council received to support its general Covid-19 related impact costs, sale, fees and charges grant, a number of Public Health grants where providing grants through Council to Public Health providers and care providers and a number of business grants and test and trace grants

- Covid-19 update report submitted to Cabinet bi-monthly

- The Narrative report would identify the quantum of Covid grants

Resolved:- (1) That the key accounting issues and main changes to the accounts in 2020/21, as listed in Appendix A submitted, be noted.

(2) That consideration be given to inclusion of a statement in the Narrative Report with regard to Covid-19 grants in order to provide a full picture setting out the scale and value in total.

158. CLOSURE OF THE ACCOUNTS 2020/21 - TIMETABLE

Consideration was given to a report presented by Rob Mahon, Head of Corporate Finance, setting out the timetable for the production of the financial statements which had to be approved by the Audit Committee by 30th September, 2021, based on the revised regulations to be implemented for 2 years.

The amended regulations required:-

- Publication of unaudited accounts by 31st July, 2021
- Public inspection of draft accounts – 1st-10th August, 2021
- Unaudited accounts submitted to Audit Committee along with Narrative Report and Annual Government Statement – date to be confirmed

- External audit of accounts – August and September, 2021
- Audited accounts submitted to Audit Committee together with Narrative Report and Annual Government Statement – 28th September, 2021
- Publication of audited accounts – 30th September, 2021

Gareth Mills, Grant Thornton, informed the Committee that a guarantee could not be provided that Rotherham's audit would be concluded by the end of September. This was due to the significant overrun across the country on the 2020 audits which in turn had pushed back Housing Benefit and then 2021 audit planning for the NHS and local government.

This was a similar situation for all external audit companies nationally and the reason why there had been a push back quite heavily on the suggested 30th September audit deadline for local authorities this year.

The NHS audits would be completed first due to their end of June deadline. This was the same message being conveyed to other authorities that Grant Thornton was the external auditor for and not just Rotherham.

It would be extremely challenging to conclude the audit within the 2 months window stated but hoped to provide an update to the next Committee meeting.

The Strategic Director, Finance and Customer Services, reported that close work would continue with Grant Thornton. However, if the audit was delayed it would coincide with the Council's budget setting period and would present resource challenges for the Authority. However, close work would continue with the external auditor.

Resolved:- That the timetable for the production of the Council's financial statements be noted.

159. GRANT THORNTON UPDATE

Gareth Mill, Grant Thornton, gave the following verbal update:-

- Continued regular engagement with the Strategic Director, Finance and Customer Services, and the Chief Executive

- Further to Minute No.158, the delay was also due to the National Regulator (Financial Reporting Council) review of Grant Thornton's audit file which was taking up considerable time for the external auditor resources. There was an increased in expectations of the audit documentation and audit quality from the Regulator

- The FRC reviewed a sample of audit files of audit firms who carried out audit work of local authorities. In the middle of January Grant Thornton was informed that Rotherham had been selected for review and had commenced in February. It was expected to continue until the middle of May. It was a very detailed assessment at the end of which there would be a report and grading

- Attempts were being made to increase the number of public sector auditors within Grant Thornton to CIPFA trainee level but it took time to develop into experienced auditors. In the short term the resource position remained a problem

Resolved:- That the update noted.

160. INTERNAL AUDIT PROGRESS REPORT 1ST JANUARY-28TH FEBRUARY, 2021

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 January to 28th February, 2021, and the key issues that had arisen therefrom. The current position of the plan was outlined in Appendix A to the report. The plan had to remain flexible and consultation would be ongoing throughout the rest of 2020/21 as the Covid-19 situation changed, with detailed scopes and timing agreed on an ongoing basis. The changes made to the Plan are set out in Appendix B to the report.

Three audits had been finalised since the last Committee meeting including 2 with Substantial Assurance and one Reasonable Assurance. Audit opinions and a brief summary of all audit work concluded since the last meeting was set out in Appendix C to the report.

Internal Audit's performance against a number of indicators was summarised in Appendix D. Target performance was not achieved for productive time. This was affected by the need to work from home and the time spent on Business Support Grants. No client satisfaction surveys had been received during the period in question.

Appendix E showed the number of outstanding recommendations that have passed their original due date, age rated. The number of aged outstanding actions had decreased to 26 from 39. Provided that the new realistic dates were achieved and new actions were completed on time, this will reduce over the next 6 months.

Resolved:-

(1) That the Internal Audit work undertaken between 1st January and 28th February, 2021, and the key issues arising 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.

161. INTERNAL AUDIT ANNUAL PLAN 2021/22

Consideration was given to the Internal Audit Plan for 2021/22 presented by David Webster, Head of Internal Audit. The report explained Internal Audit's approach to the development of the plan, as well as detailing the specific activities Internal Audit planned to review during the year. It reflected a comprehensive risk assessment process including discussions with Strategic Directors and Assistant Directors to obtain their views of key risks and areas for audit coverage as well as a contingency to allow for the impact of Covid-19. It would need to remain flexible to respond to future developments.

Resolved:- That the Internal Audit Plan for 2021/22 be approved.

162. AUDIT COMMITTEE FORWARD PLAN

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

Gareth Mills, Grant Thornton, commented that the forward plan stated that the annual audit letter would be submitted to the September meeting and final audited accounts in November, but as stated earlier in the meeting, there may be a delay.

It was noted that once discussions had taken place with Grant Thornton and assurances with regard to the dates, they would be reflected in the Forward Plan and as to whether any amended/additional Committee dates were required.

Resolved:- That the Audit Committee forward plan, now submitted, be supported with the comments above taken into account.

163. ITEMS FOR REFERRAL FOR SCRUTINY

There were no items for referral to Scrutiny.

164. 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 item of business on the grounds that it involves 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).

165. FINANCE AND CUSTOMER SERVICES RISK REGISTER

Judith Badger, Strategic Director Finance and Customer Services, , presented a report providing details of the Risk Register and risk management activity within the Finance and Customer Services 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 Member
- How risks were included on and removed from the Register
- Anti-fraud activity in the Directorate

Discussion ensued with the following issues raised/clarified:-

- There were 10 items on the risk register one of which was also included on the Corporate Risk Register
- Only one risk was rated “red”, 6 “Amber” and 3 “Green”
- IT infrastructure and generalised cyber threat

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

166. 2020/21 MUNICIPAL YEAR

As it was the last meeting of the 2020/21 Municipal Year the Chair thanked Members of the Audit Committee and officers for their work and commitment during the last year.

167. DATE AND TIME OF FUTURE MEETINGS

Resolved:- That meetings of the Audit Committee for the 2021/22 Municipal Year be held as follows:-

Tuesday, 22nd June, 2021
29th July
28th September
30th November
11th January, 2022
15th March all commencing at 2.00 p.m.