# AUDIT COMMITTEE
# 29th July, 2021

Present:- Councillor Baker-Rogers (in the Chair); Councillors Barley and Browne.

Gareth Mills and Thilina De Zoysa, Grant Thornton, were also in attendance.

Apologies for absence were received from Councillors Hoddinott, Wilson and Wyatt and John Barber, Independent Person.

## 16. MINUTES OF THE PREVIOUS MEETING HELD ON 26TH JUNE, 2021

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 22nd June, 2021.

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

## 17. DECLARATIONS OF INTEREST

There were no Declarations of Interest made at the meeting.

## 18. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

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

## 19. EXCLUSION OF THE PRESS AND PUBLIC

Resolved:- That, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for Minute No. 26 (Corporate Strategic Risk Register - appendix) and Minute No. 31 (Risk Management – Adult Social Care, Health and Housing), as they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

## 20. DRAFT STATEMENT OF ACCOUNTS

Rob Mahon, Head of Corporate Finance, presented the draft unaudited Statement of Accounts 2020/21 which would be published on the Council's website on 31st July, 2021.

The publication of the unaudited accounts triggered a period of 30 working days (starting on Monday, 2nd August and ending on Friday, 13th September, 2021) for local electors to exercise their rights to inspect the accounts and supporting records and to ask question of the external auditor.

The external audit of the 2020/21 accounts had commenced with the Finance Team working with Grant Thornton to produce the working papers. Due to the time pressures for Grant Thornton, it was expected that the Council would produce and publish its final account without external audit's final opinion on 30th September, 2021.

In order to comply with the Accounts and Audit Regulations, the Council would need to include a brief statement on its website by 30th September explaining the audit process was still ongoing with Grant Thornton and the Council agreeing the appropriate wording.

As in the report to the June meeting, there were a number of factors that had led Grant Thornton being unable to conclude the audit by 30th September. These factors were out of the Council's control and it should be noted that there were no financial penalties arising from not publishing the audited accounts by the September deadline. Where appropriate, Grant Thornton would set out any material adjustments made to the accounts and any uncorrected differences of a non-trivial nature.

Grant Thornton was targeting a November 2021 sign off date which was expected to be confirmed in their Audit Plan.

The Narrative Report attached at Appendix A to the report submitted, together with the Highlights Report (Appendix B), summarised the key financial disclosures reported in the 2020/21 draft Statement of Accounts and provided further detail on each of the key financial issues referred to above.

The Chair thanked the officers involved in the production of the Statement of Account during the very difficult circumstances.

Discussion ensued on the report with an explanation provided as to how the level of materiality was calculated based on a proportion of the Authority's gross revenue spend i.e. 1.5% and the differing grading of accounts.

Resolved:- That the draft unaudited Statement of Accounts 2020/21 be noted.

## 21. ANNUAL TREASURY MANAGEMENT REPORT AND ACTUAL PRUDENTIAL INDICATORS 2020/21

In accordance with Minute No. 21 of the Cabinet Meeting on 19th July, 2021, consideration was given to a report presented by Rob Mahon, Head of Corporate Finance, which detailed how the Council approved the Treasury Management Strategy in February, 2020, and received a mid-year report in January, 2021, representing a mid-year review of treasury activity during 2020/21.

The Annual Treasury Management report was the final treasury report for 2020/21. Its purpose was to review the treasury activity for 2020/21 against the Strategy agreed at the start of the year.

The report also covered the actual Prudential Indicators for 2020/21 in accordance with the requirements of the Prudential Code.

Presentation of the report met the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Council was required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Appendix A of the report submitted gave a summary of the Prudential Indicators and Appendix B a summary of the Prudential Indicators for the former South Yorkshire County Council.

Discussion ensued on the report with the following issues raised/clarified:-

- The Council utilised the services of a Treasury Management Advisory Service with whom quarterly meetings were held as well as daily updates on base rate changes

- The Government had released significant grants/resources to support local authorities during the pandemic all within a short space of time. The demand then limited the availability of developers to deliver schemes which ultimately drove up costs and put pressure on capital spending. This was currently being worked through and would be picked up in the annual monitoring process

- The Treasury Management Strategy was very controlled and decisions made within an agreed set of criteria

Resolved:- That the Financial Outturn 2020/21 - Treasury Management and Prudential Indicators - be noted.

## 22. EXTERNAL AUDIT PROGRESS UPDATE

In accordance with Minute No. 6 of the previous meeting, Gareth Mills, Grant Thornton, presented the External Audit progress report highlighting the following 2 areas:-

Audit Fee

- Since the award of external audit contracts in 2017, there had been a number of developments within the accounting and audit profession. The Financial Reporting Council (FRC) had set out its expectation of improved financial reporting from organisations, the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing
- The 2020-21 Code had introduced a revised approach to Value for Money (VFM) work
- The ongoing impact of the additional work required on significant risk areas of the audit together with the new VFM Code and the requirements of the revised ISAs, resulted in a proposed audit fee for 2020-21 of £183,938 (2019-20 £148,438)
- Both the Redmond Review and MHCLG recognised the need to increase audit fees. MHCLG had made £15M available to local authorities to support the expected uplift in fees in 2020-21

Delivery of the Audit

- The MHCLG had set an indicative date of 30th September for audited local authority accounts (2 months earlier than last year). This date Grant Thornton felt was unrealistic although very supportive of the date in a "normal" year
- The impact of Covid working, the need to prioritise its Housing Benefit delivery in the early part of 2021 and the NHS given an earlier audit deadline of June, 2021, had meant that the company was behind in its local authority planning and interim work compared to its normal timings and profile of delivery
- Grant Thornton had also been selected by the Regulator for a full review of Rotherham's external audit which had commenced in February. The final report had now been received
- It was proposed to complete the audit testing by the end of October with a view to completion and sign off in November. This would then give a relatively clean start to the work process for 2022 in order to meet the September deadline
- Where audits remained ongoing after the statutory date, a short statement would be included on the Council's website stating that the audit remained ongoing and that the Council was continuing to engage with the external auditors to complete their audit. This would adhere to the Accounts and Audit Regulations

Discussion ensued with the following issues raised/clarified:-

- Grant Thornton needed to ensure it concluded the majority of the 2021 audits by the end of the calendar year thus allowing them to go into the start of 2022 with a clean slate; they had not been in that position at the start of 2021

- Nationally there was an expectation that very few audits would hit the 30th September 2021 sign off due to the backlogs

- The situation was not helped by the national lack of public sector auditors. It was hoped that the uplift in the audit fee would provide the ability to address some of the challenges and retain/attract staff by way of offering more attractive salaries/benefits

- There were only 3 companies that delivered local government audits

- Appreciation of the impact on the Council's Finance Team

- Grant Thornton would not be taking up any grant certification work to enable focus on audit work

Resolved:- That the update be noted.

## 23. GRANT THORNTON EXTERNAL AUDIT PLAN 2020/21

Gareth Mills, Grant Thornton, presented the External Audit Plan in which the Council's external auditor, Grant Thornton, set out the proposed external audit work to be undertaken to form an opinion on the Council's financial statements for 2020/21 and to conclude on whether the Council had satisfactory arrangements in place to secure Value for Money in the use of its resources. The Plan also outlined the areas Grant Thornton had determined to be significant risk for special audit consideration.

The International Standards on Auditing provided guidance on the significant risks which should be considered by auditors, these being risks which required special audit consideration. Grant Thornton had identified the following significant risks, a brief description of each provided within the submitted report:-

- Risk of fraud in revenue and expenditure
- Management over-ride of controls
- Valuation of land and buildings including investment properties
- Valuation of the pension fund net liability

The Financial Reporting Council had issued an updated ISA(UK)540 (revised) Auditing Accounting Estimates and Related Disclosures which included significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of the process, auditors were required to understand and assess an entity's internal controls over accounting estimates as well as an understanding of the role of those charged with governance. This was particularly important where the estimates had high estimation uncertainty or required significant judgement. To ensure compliance with this revised auditing standard, further information would be requested from management and those charged with governance during the audit for the year ended 31st March, 2021. Based on Grant Thornton's knowledge of the Council, the following material accounting estimates had been identified for which this was likely to apply:-

- Valuations of land and buildings, Council dwellings and investment properties
- Depreciation
- Year end material provisions and accruals
- Credit loss and impairment allowances (as material)
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments
- Liabilities under PFI scheme

On 1st April, 2020, the National Audit Office had introduced a new Code of Audit Practice which came into effect from the 2021/21 audit year introducing a revised approach to the audit of Value for Money. The Code required auditors to consider whether the body had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code required auditors to structure their commentary on arrangements under 3 specified reporting criteria i.e. improving economy, efficiency and effectiveness, financial sustainability and governance. The findings would be summarised in the Auditor's Annual Report.

Rotherham had an agreed number of audit days for a metropolitan council of its size which was built into a timetable.

Resolved:- That the external auditor's audit plan for 2020/21 be noted.

## 24. ANNUAL GOVERNANCE STATEMENT 2020/21

Consideration was given to the updated 2020-21 draft Annual Governance Statement (AGS) as presented by David Webster, Head of Internal Audit, which had been published alongside the Council's Statement of Accounts on 21st July, 2021.

Covid-19 had had a significant impact during 2020/21 and was reflected within the AGS including actions taken in response to the pandemic and lockdown.

Recommended practice required the Leader of the Council and the Chief Executive to sign the final Annual Governance Statement prior to its publication.

Resolved:- (1) That the 2020-21 draft Annual Governance Statement be noted.

(2) That the requirement for the Leader and Chief Executive to sign the Statement prior to the publication of the Annual Governance Statement be noted.

## 25. INTERNAL AUDIT ANNUAL REPORT 2020-21

Consideration was given to a report presented by David Webster, Head of Internal Audit, on the role of Internal Audit, the work completed during the 2020/21 financial year and highlighted the key issues that had arisen. It provided the overall opinion of the Head of Internal Audit on the adequacy of the Council's control environment as well as the performance of the Internal Audit function during 2020/21.

Based upon internal audit work undertaken and taking into account other internal and external assurance processes, it had been possible to complete an assessment of the Council's overall control environment. In the opinion of the Head of Internal Audit, the Council had overall an adequate and effective framework of governance, risk management and control during 2020/21 including the response to Covid-19.

Appendix 1 of the report submitted included:-

- Legislative requirements and Professional Standards
- The Head of Internal Audit's annual opinion on the control framework, risk management and governance
- Resources and audit coverage during the year
- Summary of audit work undertaken during 2020/21 including both planned and responsive/investigatory work
- Summary of other evidence taken into account for control environment opinion
- Summary of audit opinions and recommendations made
- Internal Audit Performance Indicators

The emergency measures implemented in response to Covid-19 resulted in changes to procedures and control arrangements. Standards of governance and control were maintained during the year with risk management being utilised to help manage the response.

Internal Audit had not issued any No Assurance audit opinions during the year and had given an opinion of Partial Assurance in 6 areas subject to audit, however, none were considered serious enough for inclusion in the Annual Governance Statement. Action plans had been agreed with management in respect of all final audit reports issues.

During the year, the Audit Team had supported the Finance Department for more than 235 days in the processing of Business Support Grant applications. There was also a substantial level of sickness absence within the Team with 70 days sickness being recorded. However, resource levels provided sufficient capacity to provide an adequate level of assurance and sufficient work was completed to enable the Head of Internal Audit to provide his overall opinion.

Public Sector Internal Audit Standards (PSIAS) required that an assessment of the Internal Audit function must be undertaken annually with an external assessment at least every 5 years; in 2020-21 an external assessment was completed which showed general conformance with the standards.

A Quality Assurance and Improvement Programme (QAIP) was put into place during 2020 with the results reported to the Audit Committee in March 2021. This showed delays because of the response to Covid-19 but 3 of the actions had been completed and 2 were in progress. One action would be completed in 2021. An updated QAIP, based on the external assessment, had been produced to maintain and increase the level of conformance within the Team. This had 12 Actions to Consider which would be actioned and monitored during 2021.

Discussion ensued on the report with issues raised/clarified around:-

- The number of audit days planned compared to the number actually undertaken had varied in some Directorates. This was partly due to scheduling/resources on the subject matter of the proposed audit and some delays due to Covid, however, there was nothing that had led to cause for concern

- Each audit opinion/recommendation had its own due by date agreed at the time of the audit. By the end of the financial year the vast majority of the recommendations had been implemented. This was an area supported by the Strategic Leadership Team

Resolved:- (1) That the Internal Audit work undertaken during the 2020/21 financial year and the key issues that had arisen therefrom be noted.

(2) That the overall opinion of the Head of Internal Audit on the adequacy and effectiveness of the framework of governance, risk management and control within the Council, be noted.

## 26. CORPORATE STRATEGIC RISK REGISTER

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.

Since early 2020, the Council had been involved in responding to an unprecedented emergency which had involved the activation of the Council's Business Continuity Plan to ensure critical services could be maintained as well as the creation of significant new services to meet the needs of the most vulnerable in the Borough. The report summarised the

current arrangements and presented the current Corporate Strategic Risk Register which had recently been considered by the Strategic Leadership Team.

The report detailed the overall arrangements which included:-

- Risk Champions, each of whom led on risk for their Strategic Director

- The Risk Champions, Assistant Chief Executive and the Corporate Improvement and Risk Manager formed the Risk Champions Group responsible for co-ordinating risk management across the Council in normal circumstances

- Corporate Strategic Risk Register completed following reviews of individual risk by Directorate Leadership Teams. Every risk on the Register was owned by a member of SLT and also appeared on their Directorate's Risk Register

- The Strategic Risk Register had been formally reviewed by SLT both at joint SLT/AD Performance Management meetings and at separate SLT meetings. These meetings would continue to review the Register every 3 months

- It was also reported regularly to the Audit Committee together with the annual "deep dives" of Directorate Risk Registers

- The Corporate Improvement and Risk Manager, through the Risk Champions, ensured updates were obtained from all risk owners, reviewed each update and drew attention to issues or missing updates

- The Register had been updated, aligned with the Year Ahead Plan and would be reviewed again to ensure it aligned with the new Council Plan later in the year

- Work was taking place on developing a refreshed approach to risk management training

- The Risk Management Policy and Guide would be refreshed before the new financial year to ensure alignment with current practice

The Council's risk profile had been reducing and an increasing understanding of the key risks that needed to be managed at a strategic level was being developed. However, that improvement had inevitably slowed during the pandemic but the overall track in the last 2 years was still an improving one. Since January 2020, 40% of risks monitored at a strategic level had reduced or been removed, 40% had remained stable and 20% had increased/new to the register.

Since the last update, one risk had been removed and no new risks added. There were now 13 risks on the Strategic Risk Register, down from 14 at the last review but up from 12 in January, 2020.

The risk management process had recently been subject to an Internal Audit review which had compared arrangements to the requirements of the relevant International Standard ISO31000. The review had included that substantial assurance, the highest assurance level possible, could be derived from the controls that were in place.

Discussion ensued with the following issues raised/clarified:-

- Each Strategic Director was responsible for their own Risk Register and, within that, each Assistant Director responsible would have a more extensive Risk Register
- A risk may re-appear on the register but it would be in a different form as the process rolled forward
- The number of risks had slightly increased during the pandemic but was now decreasing
- Ongoing discussions regarding cross cutting-Directorate risks and moving from the Strategic Risk Register to the delivery area
- The Risk Register and the Corporate Plan were designed to address crosscutting issues

Resolved:- That the update be noted.

## 27. EXTERNAL INSPECTIONS, REVIEWS AND AUDITS UPDATE

Consideration was given to a report, presented by Simon Dennis, Corporate Improvement and Risk Manager, and Tanya Lound, Corporate Improvement and Risk Officer, 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 January, 2021, 6 external inspections, reviews and audits had taken place and 14 recommendations made 12 of which had been implemented and 2 remained ongoing. In addition, 8 of the ongoing recommendations in relation to external inspections, reviews and audits that took place prior to January 2021, had now been implemented, 15 remained either outstanding or ongoing.

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

Discussion ensued on the report with the following issues raised/clarified:-

- Report would benefit from the inclusion of target dates and completion dates for the recommendations

- Investigate as to whether any learning from an inspection in one Directorate could be transferred into another

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.

(4) That where possible, inclusion of target dates and completion dates for the recommendations in future reports.

(5) That consideration be given as to whether any generic inspection recommendations could be passed on as learning to other Directorates.

## 28. AUDIT COMMITTEE ANNUAL REPORT 2020/21

David Webster, Head of Internal Audit, submitted the Audit Committee 2020/21 Annual Report which had been produced in compliance with current best practice for audit committees. The Chartered Institute of Public Finance and Accountancy (CIPFA) had issued guidance that Audit Committees should report annually on how they had discharged their responsibilities during the previous municipal year.

The draft annual report was attached to the report submitted together with the Committee's Terms of Reference. The report set out:-

- A summary of the work undertaken
- External Audit
- Internal Audit
- Anti-Fraud and Corruption
- Risk Management
- Corporate Governance
- Finance

- Other
- Training
- Terms of Reference 2020/2021

The Chair requested that the foreword include appreciation of the work of the former Audit Committee Members particularly during the time of the pandemic.

Resolved:- That the Audit Committee Annual Report 2020/21, with the amendment above, be noted and submitted to Council for approval.

## 29. AUDIT COMMITTEE FORWARD WORK PLAN

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

Resolved:- That the Audit Committee forward plan, now submitted, be supported.

## 30. ITEMS FOR REFERRAL FOR SCRUTINY

There were no items for referral.

## 31. ADULT CARE, HOUSING AND PUBLIC HEALTH (ACPH) DIRECTORATE RISK REGISTER

Consideration was given to a report, presented by AnneMarie Lubanski, Strategic Director, Adult Care, Housing and Public Health, and Jo Hinchliffe, Governance Officer, providing details of the Risk Register and risk management activity within the Adult Care, Housing and Public Health Directorate.

A detailed breakdown was given of the Directorate's approach to risk management and the efforts to ensure transparency and the understanding of risk management by all staff.

Discussion ensued with the following issues raised:-

- Shared risk assessment with regard to Housing partners/repairs and maintenance partners to understand where they were in terms of their workforce

- Any inspection recommendation to Adult Social Care would be shared with other premises

- Heavy involvement of all staff in the Directorate to enable a perception of what their risk may be

- Covid had posed, and still was, numerous issues for Adult Social Care

- Wellbeing of the Social Care workforce

- Residential care establishments had their own risk assessment process as part of the Care Quality Commission inspections

- The Wellbeing Forum provided staff with the ability to discuss situations they had come across in the community where there may be risk and as to whether it fell into the Safeguarding remit

- Suicide prevention was a new risk and would be populated with actions shortly

Resolved:- That the progress and current position in relation to risk management activity in the Adult Social Care, Housing and Public Health Directorate, as detailed in the report now submitted, be noted.

## 32. URGENT BUSINESS

There was no urgent business to be considered.

## 33. DATE AND TIME OF NEXT MEETING

Resolved:- That a further meeting be held on Tuesday, 28th September, 2021, commencing at 2.00 p.m. in Rotherham Town Hall.