

AUDIT COMMITTEE
Thursday 28 July 2022

Present:- Councillor Baker-Rogers (in the Chair); Councillors Wyatt and John Barber (Independent Person).

Gareth Mills (Grant Thornton) was also in attendance.

Apologies for absence were received from Councillor Mills, Thilina de Zoysa (Grant Thornton) and Judith Badger, Strategic Director of Finance and Customer Services.)

15. DECLARATIONS OF INTEREST

There were no declarations of interest made at the meeting.

16. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

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

17. 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. 25 (Corporate Strategic Risk Register – Appendix 1) as it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

18. ITEMS FOR REFERRAL FOR SCRUTINY

There were no items for referral for scrutiny.

19. PUBLICATION OF UNAUDITED STATEMENT OF ACCOUNTS 2021/22

Rob Mahon, Assistant Director Financial Services, presented the draft unaudited Statement of Accounts 2021/22 which would be published on the Council's website by 31st July, 2022, alongside the Narrative Report and draft Annual Governance Statement in line with the revised timelines. The period for local electors to exercise their rights to inspect the accounts and supporting records and ask questions of the external auditor would commence on 1st August, 2022, and cease on 12th September, 2022.

The final external audit of the 2021/22 accounts had not commenced at the point the report was written. The Council's external auditors had indicated that they would be able to meet the revised audit deadline of 30th November, 2022. The deadlines had been revised in light of the Covid-19 outbreak. The deadline for the 2022/23 audited accounts and accounts for the following 5 years would be 30th September.

Appendix A to the report was the Narrative Report and Appendix B was the Financial Highlights report which together summarised the key financial disclosures reported in the 2021/22 draft Statement of Accounts (Appendix C) and provided further detail on each of the key financial issues referred to. Appendix D was from Grant Thornton and was titled "Informing the audit risk assessment for Rotherham Metropolitan Borough Council 2021/22."

The final unaudited accounts would be presented at the end of September in line with the original timeline. However, Grant Thornton had confirmed that they would complete their audit by the revised audit deadline of the end of November 2022. This provided Members with an opportunity to consider the draft unaudited Statement of Accounts before Audit Committee was asked to formally approve them, post completion of Grant Thornton's audit, at its meeting in November 2022.

The Committee thanked the officers involved in the production of the Statement of Accounts, which were up to the usual high standards and in line with the timetables.

Discussions ensued on the report and it was confirmed that Audit Committee received updates on the Medium Term Financial Strategy (MTFS) via their Risk Register updates. The MTFS was reviewed annually by the Overview and Scrutiny Management Board, Cabinet and Council. Members requested that the MTFS be included on the agenda for an Audit Committee before the year-end. The Assistant Director gave an update on the current financial situation within the Council, with an overspend expected. It was confirmed that the impact of the pay award was not yet known and would be a challenge for the Council.

Resolved:- (1) That the draft unaudited Statement of Accounts 2021/22 be noted.

(2) That a presentation on the Medium Term Financial Strategy be made to the Audit Committee prior to the end of 2022.

20. ANNUAL GOVERNANCE STATEMENT 2021/22

Consideration was given to the updated 2021/22 draft Annual Governance Statement (AGS) as presented by David Webster, Head of Internal Audit. The AGS would be published on the Council's website alongside the Council's Statement of Accounts by 31st July, 2022.

Covid-19 continued to have a significant impact during 2021/22. This was reflected within the AGS, which included actions taken in response to the pandemic and lockdown.

During the year the Council had received 2 reports from the Local Government and Social Care Ombudsman who had found fault by the Council. In addition, an inspection of the provision for children with

Special Educational Needs or Disabilities conducted by Ofsted and the Care Quality Commission resulted in the need for a Written Statement of Action, which was submitted jointly by the Council and the area's Clinical Commissioning Group.

The Council also received an adverse audit report from Homes England regarding compliance with the requirements for grant funding. In addition, the Council was made aware of a Health and Safety Executive formal investigation, the result of which was expected later in the year. All of these were included within the AGS, along with the measures put in place to drive the necessary improvements.

The Committee had been informed at the meeting in June 2022 that the Ombudsman was satisfied with the Council's response to one of his reports. David Webster was able to confirm that a letter had been received from the Ombudsman regarding the second report, 20 012 286 (Minute No. 101 of 12th April, 2022 refers). The letter indicated that the Ombudsman was satisfied with the Council's response and has recorded a compliance outcome of 'Remedy complete and satisfied'.

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

Resolved:- That the 2021/22 draft Annual Governance Statement be noted.

21. GRANT THORNTON EXTERNAL AUDIT PLAN 2021/22

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 2021/22 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

Key issues highlighted within the report included the £2.4m underspend for 2021/22; the Dedicated School Grant (DSG) Deficit; the challenges for 2022/23 and beyond; and Climate Change. The reference to Climate Change looked at the devastating floods in Rotherham in 2007 and 2019 and looked at the Council's carbon emissions targets. It was confirmed that the inclusion of Climate Change in external audit work was not specific to Rotherham.

Discussions were held on the report and in particular, how the external auditors judged financial sustainability.

A proposed fee of £179,188 has been set for 2021/22, compared to £180,939 for 2020/21. The fee for 2021/22 was governed by the Public Sector Audit Appointments (PSAA) company set up by the LGA as the successor body to the Audit Commission. Any change to the final fee would have to be agreed by the PSAA and the Council's Section 151 Officer. The fee for 2021/22 reflected the continued increased costs of the external audit function to the Council following the increased level of work and assurance that external audit had to provide at a national level. The reason the fee had reduced slightly for Rotherham was that there had been work done on standardising fees across the sector. An uplift in the cost was to be expected when the new external audit contract was agreed later in the year. Rotherham could expect to know who its external auditor would be for the new contract period by Christmas 2022.

Resolved:- That the external auditor's audit plan for 2021/22 be noted.

22. ANNUAL TREASURY MANAGEMENT REPORT AND ACTUAL PRUDENTIAL INDICATORS 2021/22

Consideration was given to the report presented by the Assistant Director Financial Services, Rob Mahon, which detailed how the Council approved the Treasury Management Strategy in March, 2021 and received a mid-year report in November 2021, representing a mid-year review of treasury activity during 2021/22.

The Annual Treasury Management report was the final treasury report for 2021/22. Its purpose was to review the treasury activity for 2021/22 against the Strategy agreed at the start of the year.

The report also covered the actual Prudential Indicators for 2021/22 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 1 of the report submitted gave a summary of the Prudential Indicators for the Council.

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

- The Treasury Management Strategy reserve formed part of the Medium Term Financial Strategy. It was planned that the Council would move away from short term borrowing and look more at longer term borrowing.
- At the end of the financial year 2021/22, the closing Capital Financing Requirement was £52.336m less than that approved in the revised indicator. It was confirmed that the intention was still to deliver the Capital Programme as planned but there could be issues with costs and as such, the viability of schemes could need to be reassessed. Any changes to the Capital Programme would have to be reported through Cabinet and Council.

Resolved:- That the Financial Outturn 2021/22 – Treasury Management and Prudential Indicators be noted.

23. DEDICATED SCHOOL GRANT - CENTRAL RESERVE

Consideration was given to the report which outlined 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. The report also outlined the national picture on the High Needs Block as part of the overall Dedicated Schools Grant and the additional funding the Government was investing in education as part of its spending review.

Rotherham had been a relatively low funded authority and had seen significant pressures on the High Needs Block for many years. The High Needs Budget allocation had increased year on year but, 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 increase in the cost of provision. In 2015/16 the High Needs in-year deficit was £1m, however, since then in the financial years up to 2019/20, the annual High Needs Block deficit had been around £5m with an overall DSG deficit of £19.89m as at the 31st March, 2020.

Following significant negotiations between Rotherham Metropolitan Borough Council (RMBC) and Department of Education (DfE), a Safety Valve Intervention agreement had been developed to support Rotherham to address its long term issues linked to High Needs funding deficit, including investment from DfE of £20.53m across the 5 years of the agreement. The Council had also requested capital investment to deliver its long term strategic plan and had been awarded £4.3m above the annual High Needs capital allocations (circa £9m, £3m over the next 3

years). Due to the scale and remit of the project, the Council had also requested funding for a team to deliver the project. As part of the agreement the Council would receive recurrent funding of £385k per annum across the next 4 years of the Safety Valve. As part of this investment the Council was also looking at supporting delivery of the project through a dedicated resource to project manage the program and enhance the SEND commissioning offer in the Borough.

The Dedicated Schools Block Central Reserves deficit at the end of the 2021/22 financial year was £12.84m, which after taking account of DSG reserves required in the 2022/23 financial plan was still on target with the DSG management plan.

Following discussions it was confirmed that an annual update on the Dedicated Schools Grant would be provided to Audit Committee. Updates had to be provided to the DFE every year. Officers also confirmed that the Council was on track to meet its targets.

It was agreed that officers would provide the Chair with the figures that showed that the Council could continue to meet the growing need for support whilst reducing the deficit. Discussions were also held on the impact of the withdrawal of the School Block funding.

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

(2) That the additional funding allocated to Rotherham through the Department for Education's Safety Valve Programme be noted.

24. UPDATE REPORT ON THE USE OF SURVEILLANCE AND ACQUISITION OF COMMUNICATION DATA POWERS

Bal Nahal, Head of Legal Services, presented an update on the Council's use of surveillance and acquisition of communication data powers under the Regulation of Investigatory Powers Act 2000 (RIPA) and the Investigatory Powers Act 2016 (IPA).

As previously with the Office of Surveillance Commissioners (OSC), the Council was required to notify the Investigatory Powers Commissioners Office of the number of directed surveillance/CHIS authorisations granted in each financial year. Since the last report, the Council had not used its powers under RIPA to use directed surveillance, covert human intelligence sources or to acquire communications data. A statistical return was completed and submitted to the Investigatory Powers Commissioners Office on 9th February, 2022.

Following on from a desktop inspection conducted by the Investigatory Powers Commissioners Office, external training was provided to all officers involved or likely to be involved in the use of powers provided under the RIPA legislation. To ensure that the training was up to date and

new staff joining were aware of their roles, a further training session was being arranged. Work was also currently being undertaken to consider how awareness could be widened to reach those that were not actively involved with the legislation on a daily basis. The purpose of this would be to further reduce any potential risk arising from any unauthorised activity.

The RIPA Policy was reviewed by the Audit Committee at its meeting on 21st June, 2021, and was re-adopted. The RIPA Policy has been reviewed and there were some minor changes to personnel.

The Acquisition and Disclosure of Communications Data Policy had been reviewed and was out of date. The Policy was no longer valid. The legislation was to be reviewed and a decision made as to whether such a Policy was required. The Council did not currently utilise the powers provided under the IPA and the powers were very restricted.

During discussions it was confirmed that it was typical of local authorities not to use the powers as most of the work done did not meet the threshold. It was also confirmed that the need for an Acquisition and Disclosure of Communications Data Policy would be re-reviewed when the legislation was changed and an update would be provided to the Audit Committee. The Head of Legal Services also confirmed that the changes to sentencing powers for magistrates did not have an impact on the use of surveillance and acquisition of communication data powers.

Resolved:- (1) That the Audit Committee note that the Council had not made use of surveillance or acquisition of communication data powers under the relevant legislation since it was last reported on 21st June, 2021.

(2) That the RIPA Policy with the minor amendments relating to personnel be approved..

(3) That it be noted that the Acquisition and Disclosure of Communications Data Policy was no longer valid.

25. CORPORATE STRATEGIC RISK REGISTER

Simon Dennis, Corporate Improvement and Risk Manager, presented the current Corporate Strategic Risk Register which summarised the current position of the Register and also provided a short summary of the Council's risk management arrangements.

It was reported that although the response to the COVID-19 pandemic, which had seen risk management play a vital role, remained ongoing, risk management arrangements had now broadly returned to normal. This had been set out in the Risk Management Annual Summary that was presented to the Audit Committee at the meeting in June 2022. The current Corporate Strategic Risk Register had recently been considered by the Council's Strategic Leadership Team (SLT.)

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 own 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 Audit Committee received 2 reports a year on the overall status of the Council's strategic risks. The CSRR (which was attached at Appendix 1) was currently aligned to the Council's current Year Ahead Plan.

The Council's risk profile had been broadly 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 2021, 73% of risks monitored at a strategic level had reduced or been removed, just over 6% had remained stable and 20% had increased/were new to the register.

Since the last full update in December 2021, one new risk had been added to the CSRR. That was risk SLT37 and related to the Council's ability to deliver the wider range of projects, schemes and initiatives which it had committed to. There were now 14 risks on the Strategic Risk Register, up from 13 at the last review.

Risk number SLT03 had been rewritten to more accurately reflect the risk that the Council was currently facing relating to pressure on its services in the context of the current cost of living crisis. The previous version of the

risk referred solely to family poverty, limiting its scope and also did not clearly state which business objectives the Council might fail to meet. As a result of a review, the risk had been reframed to specifically refer to the impact of the current cost of living crisis on delivery of the Council Plan (and the associated Year Ahead Delivery Plan). The associated mitigations were similar to the previous risk but had been enhanced to reflect the wider potential impact of this risk.

The risk management process was reviewed by Internal Audit during early 2022. This review compared the Council's arrangements to the requirements of the relevant International Standard, ISO31000. The review once again concluded that substantial assurance could be derived from the controls that were in place. This was the highest assurance level possible. A further review will be carried out in 2023.

Discussions ensued with the following issues raised/clarified:-

- Fuel Poverty and Health Inequalities were covered under the cost of living crisis risk on the Corporate Strategic Risk Register. They were however broken down further in the Directorate risk registers.
- Arrangements had been made around emergency planning for future outbreaks of Covid-19 along with monitoring arrangements.
- The risk relating to the EU trade deal had been removed from the CSRR but was still on the Regeneration and Environment Directorate Risk Register. Other Directorates also had matters relating to the EU exit on their Risk Registers.
- Matters relating to the war in Ukraine such as the impact on gas and food were covered under the Medium Term Financial Strategy risk but some further context would be added to make this clearer in future.

It was agreed that going forward the number of each risk would be included within the circles on the Risk Heat Maps. It was also agreed that the Chair would be provided with further detail regarding the EU Exit risks on the directorate Risk Registers.

Resolved:- That the update on the Corporate Strategic Risk Register be noted.

26. EXTERNAL INSPECTIONS, REVIEWS, AND AUDITS UPDATE

Consideration was given to the 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 Audit Committee in January 2022, 7 external inspections, reviews and audits had taken place and 47 recommendations/areas for improvement had been made, of which 27 had been implemented, 12 were ongoing and 8 had not yet started. The outcome was not yet known for 3 of the inspections and peer reviews conducted.

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

In addition, 3 of the ongoing recommendations relating to external inspections, reviews and audits that took place prior to January 2022 had now been implemented, and 12 remained ongoing, 4 of which were awaiting final sign off. Four previously reported ongoing inspections/audits required no further action due to no recommendations or areas for improvement being identified around the closure of Parkhill Lodge.

Helen Sweaton, Acting Assistant Director of Commissioning and Performance (CYPS), and Monica Green, Assistant Director of Safeguarding (CYPS), attended to respond to questions in relation to the Rotherham Youth Justice Service Peer Review and the Inspecting Local Authority Services for Children (ILACS) Short Inspection (Ofsted.)

In response to comments from the Chair, it was agreed that a further written update would be provided on the 5 areas that were reported as "not yet started" in relation to the Rotherham Youth Justice Service Peer Review and that this information would include updated target dates. In relation to Section 3.7.2 it was confirmed that the one ongoing recommendation was on-going due to multi-agency working and the need to have personally identifiable data which required new legal agreements to be in place.

The Chair made reference to Section 3.10.4 and the Assistant Director confirmed that a lot of progress had been made. Whilst progress had been made against all recommendations, there was a separate list of 34 actions there were being worked through. It was agreed that these would be shared with the Chair.

Resolved:- (1) That the recent external inspections, reviews and audits which have taken place and the progress made relating to ongoing recommendations be noted.

(2) That the governance arrangements in place for monitoring and managing the recommendations 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.

27. AUDIT COMMITTEE FORWARD PLAN

Consideration was given to the proposed forward work plan for the Audit Committee covering the Period September 2022 – July 2023. The following changes were agreed:

- Presentation of the Final Statement of Accounts – moved from September 2022 to November 2022.
- The addition of the Medium Term Financial Strategy to the plan for prior to December 2022.
- The addition of the Safety Value Update to June 2023.

Resolved:- That the Audit Committee forward plan, as amended, be supported.

28. URGENT BUSINESS

There was no urgent business to be considered.

29. DATE AND TIME OF NEXT MEETING

Resolved:- That the next meeting of the Audit Committee be held on Tuesday, 27th September, 2022 at 2.00pm in Rotherham Town Hall.