

Minutes

Meeting name	Audit and Standards Committee
Date	Tuesday, 9 March 2021
Start time	6.30 pm
Venue	This meeting will be held by remote access - details below

Present:

Chair Councillor J. Douglas (Chair)

Councillors J. Wilkinson (Vice-Chair) P. Chandler
R. Child M. Glancy
A. Hewson

Officers Director for Corporate Services
Assistant Director for Governance & Democracy
Head of Internal Audit
Democratic Services Manager
Corporate Services Manager
Accountant (CK)
Democratic Services Officer (CR)

Minute No.	Minute
70	<p>Apologies for Absence</p> <p>Apologies for absence were received from Councillors Fisher. Councillors Bains and Smith were not present at the meeting.</p>
71	<p>Minutes</p> <p>The minutes of the meeting held on 27 January 2021 were confirmed and authorised to be signed by the Chair.</p> <p>[Councillor Chandler left the meeting]</p>
72	<p>Declarations of Interest</p> <p>There were no declarations of interest.</p>
73	<p>Internal Audit Update</p> <p>Rachel Ashley-Caunt, Head of Internal Audit introduced the report, the purpose of which was to update Members on the progress made in delivering the 2021/22 Internal Audit Plan and key findings arising from audit assignments completed.</p> <p>Ms. Ashley-Caunt confirmed that all Audit Plan 2020/21 assignments were either complete or in progress and it was anticipated that the Council would meet its target of 90% completed assignments by the end of March 2021. There were a number of audits which had to be completed at the end of the year and the Committee would be updated on these as part of the annual report submitted to the next Committee meeting.</p> <p>[Councillor Chandler returned to the meeting]</p> <p>Ms. Ashley-Caunt advised that at the time of reporting, 2 further audits had been finalised, Lifeline Income and Ethics and Equalities (summarised at paragraph 2.5 of Appendix A):</p> <ul style="list-style-type: none"> • Lifeline Income - There were no significant areas of concern but recommendations were made to try to further strengthen some of the financial controls. Internal Audit had issued a satisfactory assurance rating for the design of the controls and a good level of assurance overall for compliance. There were no significant risks to highlight. • Ethics and Equalities – Internal Audit had issued a good assurance opinion overall. There were no areas of concern to highlight to the Committee. <p>Ms. Ashley-Caunt advised that an update on the progress of audit assignments was detailed at Appendix 1 and an update on the implementation of audit recommendations was detailed at Appendix 3. As requested by the Committee at its last meeting on 27 January, the table had been amended to detail actions due over 6 months ago but not implemented. High priority actions, overdue for more than 3 months (currently 3 actions) was detailed at Appendix 4 and it was anticipated that these would progress before the next Committee meeting.</p>

[Councillor Chandler left the meeting]

During discussion the following points were noted:

- Ms. Ashley-Caunt reassured Members that the revised implementation date for the 3 high priority actions outstanding had been advised as achievable and being progressed by officers. Internal Audit would continue to seek updates on and support the implementation of actions.
- It was anticipated by Senior Management Team that the Housing Team would meet their target deadline for asbestos surveys.

[Councillor Chandler returned to the meeting]

- Members were pleased that 100% of planned audit assignments were either complete or in progress. This was a considerable achievement in view of the conflicting demands and restrictions resulting from Covid-19 and they thanked officers for their work during the pandemic.
- Members were pleased with the update on the Ethics and Equality audit and with the amendment to Appendix 3, detailing actions due over 6 months ago but not implemented.

Audit and Standards Committee **NOTED** the report and progress made by the Internal Audit team in the delivery of the Audit Plan.

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Internal Audit Plan 2021/22

Rachel Ashley-Caunt, Head of Internal Audit introduced the report, the purpose of which was to provide a copy of the draft Internal Audit Plan for 2021/22 and the Internal Audit Charter for review and formal approval, in line with the requirements of the Public Sector Internal Audit Standards.

Ms. Ashley-Caunt advised that the Plan for 2021/22, which set out the schedule of work for the next 12 months had been developed in consultation with Committee Members and Senior Leadership Team. It detailed audit assignments, including the desired assurances, the reason for inclusion on the Plan, the number of days allocated to assignments and where possible the assignments were linked to the Council's Corporate Risk Registers or Corporate Plan, as they aligned to the threat risk framework.

Ms. Ashley-Caunt highlighted

- The Covid-19 Recovery assignment - This would be a crucial piece of work to review how the Council was dealing with the recovery phase of the pandemic, the changes to working practices and controls as a result of the pandemic, reflecting on how the Council dealt with issues such as decision making and administration of business grants, which had been a significant fraud risk.
- Intensive Housing Management Service - The Committee agreed to combine a number of overdue recommendations from this year in to a single recommendation (dependent on the Housing Revenue Account (HRA) Business Plan and defer this for full audit in 2021/22.

Ms. Ashley-Caunt advised that it was important that that the Plan for 2021/22 was flexible and a reserve list of assignments was detailed at Table 2. The Plan would be reviewed and assignments reprioritised if necessary. Member feedback was welcomed.

Ms. Ashley-Caunt drew Members' attention to the Audit Charter (Appendix B), which set out delivery of the Internal Audit service, including the mission of the Internal Audit Team and the processes followed. No changes had been proposed since the Committee had approved the document in March 2020.

During discussion the following points were noted:

- The Charter reflected that audit recommendations were subject to deadlines for implementation, as agreed with Senior Management Team. Recommendations not implemented within 3 months of deadlines were given revised deadlines and details were reported to the Committee.
- The work undertaken by the Council's Covid-19 Response and Recovery Task and Finish Groups (People and Place) would be a source of assurance for Internal Audit's Covid-19 Recovery assignment.
- Members were pleased that the Project Management assignment included the Asset Development Programme, which would help to strengthen the Council's longer term financial stability, particularly in view of commercial aspirations.
- Members were pleased to note inclusion of the Asset Management – Leases assignment in the Plan for 2021/22, particularly in view of the Council's new tenancy agreements.
- The Starters and Leavers and Procurement Cards assignments would be useful in highlighting any security/control concerns.
- Members noted inclusion of the Intensive Housing Management Service assignment, which reflected the monitoring and review of the service plan review and actions agreed in the 2019/20 audit.

[Councillor Chandler did not participate in the vote due to connectivity issues during the discussion]

Audit and Standards Committee:

- 1) Reviewed and **APPROVED** the Internal Audit Plan for 2021/22;
- 2) **DELEGATED** authority to the Director for Corporate Services, in consultation with the Chair of the Audit and Standards Committee, to agree amendments to the Plan during the financial year, if required;
- 3) **APPROVED** the Internal Audit Charter and Strategy.

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Statement of Accounts 2019/20

Dawn Garton, Director for Corporate Services introduced the report, the purpose of which was to seek approval for the Statement of Accounts for 2019/20, which had been prepared in accordance with the Accounts and Audit Regulations 2015 and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

Mrs. Garton advised that since 2017/18, the Council had been required to produce signed accounts by the end of May and audited final accounts by the end of July. This was an earlier deadline than previously required and was not without challenges, resulting in revised deadlines for the 2019/20 signed accounts (by the end of August) and the audited final accounts (by the end of November). These challenges were exacerbated by the Covid-19 pandemic and while the Council published its signed accounts by the end of June it did not achieve the November deadline due to delays in the external audit timescale. Members had received progress updates and training on the draft Statement of Accounts in November and the Council awaited the result of the Government's review of the external audit of local authority accounts.

Mrs. Garton highlighted that the audit of the accounts had not fully completed in relation to a small number of valuation queries and this would result in amendments to the accounts. This affected the balance sheet but not the Council's revenue position. The Council's actual borrowing was within the level of the Capital Financing Requirement (CFR) and there was a reduced excess of creditors over debtors, which showed slightly reduced performance to that of the previous year. However, the figures were a 'snapshot' as at 31 March. The Council continued to maximised its investments, showing an excess over the resources available.

During discussion the following points were noted:

- Members commented that the report was well drafted and presented. The information included, particularly on the previous year's accounts (2018/19), as a means of comparison was extremely useful.
- It was unlikely that the Council would receive a rebate on External Audit's 2019/20 fee, for the delay in publication of the audited final accounts, as the Covid-19 pandemic had resulted in additional work being undertaken by auditors which would result in an increased fee.
- It was anticipated that there would be a general and significant increase to External Audit fees for 2020/21 and later years.
- The variances between 2018/19 and 2019/20 Gains and Losses on Trading Accounts, as detailed at note 6 (Financing and Investment Income and Expenditure) of the Statement of Accounts were due to a revaluation gain on buildings in 2018/19, which caused a much reduced expenditure. This mainly related to industrial estates and a little to the Cattle Market.
- Investments held at the end of March (£20,5m) as detailed on page 103 of the Statement of Accounts represented property investment at its full value, those investments which had increased marginally during the year (£20,395m) detailed on page 189 represented cash and cash equivalents (£1,5m short-term deposits with banks/building societies and £3m money market funds), £14m short-term investments and £1,895m long-term investments (balance sheet valuation, as opposed to the actual £2m investment).
- Members were concerned over the uncertainty in the asset valuations, as a result of the pandemic.
- Assets had been evaluated (as at 31 March 2020) but the impact of Covid-19 was yet to be considered and it was too early to discern any meaningful amended values.
- Members would be advised of the amendments made and the amended

	<p>accounts would be published to the website, as required.</p> <ul style="list-style-type: none"> Members were urged give prior notice to officers of questions requiring detailed responses, to ensure that responses could be provided during meetings. <p>Councillor Jeanne Douglas, Chair of the Committee thanked the Finance Team for their work, noting that it had been undertaken during a period of extreme pressure and extraordinary circumstance.</p> <p>Councillors Chandler, Child and Hewson abstained from the vote.</p> <p>Audit and Standards Committee:</p> <ol style="list-style-type: none"> 1) APPROVED the Statement of Accounts for 2019-20; 2) DELEGATED authority to the Director for Corporate Services to make any changes to the Statement of Accounts 2019-20, following this meeting in regard to the outstanding items reported verbally to this committee, to be signed by the Chair of Audit and Standards once complete.
76	<p>Final Annual Governance Statement</p> <p>Kieran Stockley, Monitoring Officer introduced the report, the purpose of which was to seek approval for the Annual Governance Statement (AGS), in accordance with the statutory requirement for the Council to approve an AGS alongside its published Statement of Accounts (SoA) for 2019/20.</p> <p>Mrs. Stockley advised that the AGS had been updated since submission of a draft version to the Committee in July 2020. This final version would ordinarily have been considered at a much earlier meeting of the Committee, alongside the Internal Audit Report, the Statement of Accounts and the External Audit Report, which were delayed due to the pandemic.</p> <p>Mrs. Stockley highlighted an addition to the AGS under section 6 (Review of Effectiveness During 2019/20, Internal Audit Conclusion), for the purpose of providing clarity and transparency on the controls in place for 4 audits which had resulted in opinions of less than satisfactory. The addition confirmed that the Council followed up on all actions arising from audit reports on a monthly basis and provided reports to the Audit and Standards Committee. Where an opinion of limited assurance and major impact was given, a full follow up audit was included in the current year audit plan and the findings were included in the next annual report. A breakdown of the number of implemented recommendations for the 4 individual audits was also added.</p> <p>Mrs. Stockley highlighted the amended recommendation at 2.1 of the report:</p> <p>‘To approve the Council’s Annual Governance Statement (AGS), subject to the changes reported verbally at the meeting, as set out in Appendix A to this report.’</p> <p>The approved AGS would be published to the Council’s website, together with the</p>

minutes of this meeting.

During discussion the following points were noted:

- The AGS was thorough and comprehensive, showing how the Council was working to meet its audit obligations and objectives.
- It was useful in reviewing the effectiveness of the Council's internal control and risk management systems.
- It included information on the Council's response to the Covid-19 pandemic.
- The table detailing Areas for Improvement 2019/20 was a good summary of the continued focus to meet audit requirements to an even higher standard.

Audit and Standards Committee **APPROVED** the Council's Annual Governance Statement (AGS), subject to the changes reported verbally at the meeting.

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External Audit Annual Governance Report and Audit Options (ISA 260)

Helen Henshaw, External Auditor (Ernst Young) introduced the report, the purpose of which was to summarise External Audit's preliminary audit conclusion, in relation to the audit of Melton Borough Council for 2019/20.

Ms. Henshaw thanked the Director for Corporate Services and her team for their work to progress the audit, which was substantially complete, during what had been an unprecedented year, with the pressures on audit resource in the public sector audit market, exacerbated by the Covid-19 pandemic.

Ms. Henshaw highlighted:

- The audit was conducted to a materiality level of £543k, broadly in line with the planning report. The performance materiality of £407k was used and the threshold of reporting the statements to the Committee remained unchanged at over £27k.
- Concerning the status of the audit:
 - i. Revaluation of assets remained an outstanding item.
 - ii. The prior period adjustment had been concluded and there were no issues to report.
 - iii. External Audit continued to work with the Monitoring Officer on contingent liability and no changes in the financial statements resulting from this was anticipated.
 - iv. Receipt and review of management procedures in reviewing the completeness of related party transactions (concerning Member declarations of interests) required additional inquiries and procedures on those disclosed within the financial statements. The Monitoring Officer had worked with External Audit to progress this work and no amendments were needed.
 - v. The management representation letter, which was signed by the Council upon issue of the financial statements remained outstanding until the financial statements were approved for issue.
 - vi. Subsequent events review procedures remained outstanding until signed off by External Audit.
 - vii. Final manager and partner review remained outstanding.

- viii. External Audit were satisfied with the revised Annual Governance Statement (AGS), amended to reflect the less than satisfactory assurance ratings issued during the year and thenarrative report. Final review of financial statements following any changes to the assets would be undertaken.
- ix. Work required by the National Audit Office (NAO) concerning the Council's whole of government accounts submission was minimal and would be undertaken once the accounts had been finalised.
- Concerning areas of risk identified in the Audit Plan. There was no evidence of fraud in revenue and expenditure recognition in the 2019/20 accounts, no evidence of misstatement due to fraud or error, audit procedures for the valuation of land and buildings remained outstanding and the Council's assets had been valued as at 31 March 2020 (the valuations had informed the draft financial statements). External Audit would determine if the valuations had been based on appropriate assumptions etc.
- Concerning pension liability valuation, the impact on the Council in view of the McCloud and Goodwin cases was calculated at £102k and £107k impact. This was not considered to be material in context of the balance sheet and overall value of the liability and there was no adjustment in the financial statements. External Audit concluded that the going concern basis of accounting remained appropriate for the production of the accounts.
- External Audit proposed issuing an unqualified opinion following completion of evaluation work on the assets.
- There were adjusted differences on cash and cash equivalents, note 3 (segmental income), note 4 (expenditure and income analysed by nature), debtors, and creditors. There were other differences on £16k of redundancy expenditure.
- Concerning the Council's value for money arrangements. The Council had procedures in place to respond adequately to matters of risk and there was no significant risk to the value for money conclusion.
- Other reporting issues within the remit of External Audit included related party transactions, which were informed by Members declarations of interests. Additional work by the Council and External Audit had been undertaken.
- Concerning observations made on the control environment. During the 'substantive audit' process control observations were identified and brought to Senior Management Team's (as detailed at Part 7 of External Audit's report).
- The proposed fee for the work undertaken on the 2019/20 audit was set out at Part 8 of the report. External Audit were not able to offer a refund on this fee, as the November signing off accounts date was a target not a deadline. Audit needed to be undertaken to the appropriate quality and standard and placing deadlines on the production of audit opinions would undermine the independence of auditors.

During discussion the following points were noted:

- Members thanked External Audit for their work and production of a comprehensive report.
- External Audit's overall conclusion had been positive in that the Council had proper arrangements in place evidencing it made informed decisions and deployed resources to achieve planned or sustainable outcomes for taxpayers and local people.

	<ul style="list-style-type: none"> Members noted Ms. Henshaw's explanation relating to External Audit's proposed fee for 2019/20, commenting that this had been a significant increase compared to the 2018/19 fee. The Public Sector Audit Appointment contract contained scaled rates for auditors multiplied by the time incurred to address issues. Anything over and above what was anticipated when setting the scale fee (prior period adjustments, increased work relating to ongoing concern, difficulty in auditing property valuations, audit resourcing etc.) fell into 'scale fee variation', resulting in the observed fee increase. Inefficiency costs were borne by External Audit. It was anticipated that the valuation issues would be concluded within the next couple of weeks. Concerning the final fee. It had been agreed to place a cap on the valuation element to avoid any further increase. Non-audit work was subject to contracts negotiated with Senior Management Team separately. Such work was governed by regulation and requirements which could change each year. <p>Audit and Standards Committee NOTED the Annual Audit Results report for the year ended 31 March 2020.</p>
78	<p>Code of Conduct Update - New Model Code</p> <p>Kieran Stockley, Monitoring Officer provided a verbal update highlighting that Members had received the Local Government Association's (LGA) Model Code of Conduct (released in December 2020). It was anticipated that further guidance on the Model Code would be issued in April 2021 and this would be circulated to Members for consideration and comment.</p> <p>Mrs. Stockley advised that the National Association of Local Councils had confirmed their support for the LGA's Model Code. The Council had been working with the Leicestershire and Rutland Association of Local Councils (LRALC) and parish councils across Leicestershire to adopt a common code across Leicestershire. The work would involve parish councils reviewing their current codes, with a report to Audit and Standards Committee in early autumn.</p> <p>Members were encouraged to provide any comments or queries on the Model Code to Mrs. Stockley or Councillor Douglas.</p> <p>Audit and Standards Committee NOTED the Code of Conduct update.</p>
79	<p>Urgent Business</p> <p>There was no urgent business.</p>

The meeting closed at: 8.41 pm

Chair

