
AUDIT COMMITTEE

Monday, 30th November, 2020

Present: Councillor Stephen Button (in the Chair), Councillors Chris Knight, Michael Miller, Tim O'Kane (Vice Chair), Kath Pratt and Kate Walsh

The Chair welcomed all to the meeting, including public viewers on You Tube.

65 Apologies for Absence, Declarations of Interest, Dispensations and Substitutions

There were no apologies for absence, substitutions, declarations of interest or dispensations.

66 Minutes of the Last Meeting

The minutes of the last meeting of the Audit Committee held on 9th March 2020 were submitted for approval as a correct record.

Resolved - **That the minutes be received and approved as a correct record.**

67 Risk Management Monitoring Report

The Committee considered a report of Stuart Sambrook, Policy Manager, on the outcome of the review of the Strategic, Generic and Operational Risk Registers. Mr Sambrook was present at the meeting and highlighted key elements of the report.

At its meeting on 29th September 2003, Standards Committee had been presented with details of the Council's Risk Management Policy and associated Strategic and Operational Risk Registers. That report had also set out a protocol for updating the risk registers in addition to ensuring that the risks already identified were monitored and action plans were in place to mitigate against those risks wherever possible.

Management Team had received a report on 15th March, 2006 regarding the transfer of responsibility for updating the Risk Register to the Policy Team. The protocol for updating the risk tables had been followed and the information gathered formed the basis of the current report and its associated documents.

In November 2019, Internal Audit had published a report of their review of Risk Registers / Management to determine if they were established and managed effectively. The audit report had recommended that some refresher training for Risk Management be carried out for All Service Managers. It had also been agreed that it would be beneficial to carry out a mapping exercise across all areas of the Council to identify new risks as part of the risk register review process. To date those recommendations had only been partly worked on and the process would carry on in 2021.

The changes to the risk registers reflected in the current report were correct as at Friday 6th November 2020. A similar report had been presented to Management Team on the 11th November, 2020.

Changes to the Strategic Risk Register

There had been three major changes (new risks covering the pandemic impacts on the Council, local community and democracy) to the Strategic Risk Register. These were summarised below and one minor change that had been made was detailed at Appendix 1 (commencing at Page 5 of the report).

Area	Change	Risk Rating With Controls
NEW RISK		
Customers / Citizens (Page 5)	Risk Pandemic can cause harm to the health and wellbeing of the local Hyndburn community. Risk Owner Chief Executive	High
Economic / Reputation (Page 6)	Risk Pandemic effect on Council's financial services, staffing arrangements and service delivery. Risk Owner Chief Executive	High
Political / Legal (Page 6)	Risk Pandemic impact on local democracy, decision making process, accountable procedures, transparency and local elections. Risk Owner Chief Executive	Medium

Changes to the Generic Risk Register

There had been no major changes to the Generic Risk Register, but a number of minor changes (eight) that have been made to the Generic Risk Register. Full details of the amended risks were set out in Appendix 2 (commencing at Page 7 of the report).

Changes to the Operational Risk Register

There had been five major changes to the Operational Risk Register. These were summarised below and a number of minor changes had been made which were detailed in Appendix 3 (commencing at Page 11 of the report).

Area	Change	Risk Rating With Controls
CHANGE OF RISK RATING		
Legal (Page 21)	Risk Failure to produce final accounts on time to appropriate legal & professional standards e.g. current Accounts & Audit Regulations, IFRS (International Financial Reporting Standards) Risk Owner Head of Accountancy Services	Original Rating Low Revised Rating Medium

NEW RISK		
Contractual (Page 11)	<p><u>Risk</u> Access and availability to HBC data stored in the Cloud, should contractual obligations change or not be renewed.</p> <p><u>Risk Owner</u> Head of ICT</p>	Low
Physical (Page 11)	<p><u>Risk</u> Non-availability on-site of ICT Officers due to illness and/or self-isolation during pandemic.</p> <p><u>Risk Owner</u> Head of ICT</p>	Medium
Legal (Page 12)	<p><u>Risk</u> Failure to complete food programme in 2020/21 due to Covid-19</p> <p><u>Risk Owner</u> Executive Director (Environment) / Food Safety Manager</p>	Medium
Financial (Page 12)	<p><u>Risk</u> Project Phoenix 1D – Site Preparation Works Grant Homes England default funding event resulting in grant clawback for not achieving completion milestones and State aid compliance</p> <p><u>Risk Owner</u> Head of Regeneration & Housing</p>	Medium

Councillor O’Kane enquired about Generic Risk No. 2, at Appendix 4 (Summary of Risk Registers) which related to Buildings Insurance. He expressed concern about potential increased levels of risk in relation to the buildings vacated by Mercer 1842, due to lack of access to the buildings. In addition, he referred to paper records belonging to the former company, which might still be on the premises. Mr Sambrook agreed to report this matter to the relevant service manager.

Resolved - **That the Committee notes the report on the outcome of the review of the Strategic, Generic and Operational Risk Registers.**

68 Annual Internal Audit Report and Audit Opinion

The Committee considered a report of Mark Beard, Head of Audit and Investigations, on the Annual Internal Audit Report and Audit Opinion for 2019/20. The report also provided details on the performance of the Internal Audit Team and final outturn position for 2019/20. Mr Beard was present at the meeting and provided a summary of the main findings of the report.

The production of an Annual Internal Audit Report and Audit Opinion was a requirement of the Public Sector Internal Audit Standards (PSIAS), which were jointly published by the Chartered Institute of Internal Auditors (CIIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA). The Annual Internal Audit Report and Audit Opinion was also an aid to those charged with governance in their consideration of the Annual Governance Statement in support of the Council’s Financial Statements. The report also enabled those charged with governance to gain an independent viewpoint on the Council’s Control Environment.

The full Annual Internal Audit Report and Audit Opinion 2019/20 was provided with the report and identified the following key issues:-

- The Head of Audit and Investigations was able to issue a positive opinion on the systems of Internal Control based on the work carried out in 2019/20. However, the opinion score had noticeably dropped from 1.50 in 2018/19 to 1.85 in 2019/20.
- Internal Audit had not identified any issues in 2019/20 during the course of their audit work that would have a material effect on the Council's Financial Statements.
- Internal Audit had achieved audit plan coverage of 93.35% in 2019/20. This was 4.65% below the annual target of 98%. A contributory factor in this was time lost through sickness, purchase of additional leave and both special and compassionate leave being taken within the year. In addition, a total of 107.22 days had also been spent on 12 investigations.
- Production and publication of the substantive report was a requirement of the Public Sector Internal Audit Standards. The report satisfied the requirements for those charged with governance and formed a supplementary piece of evidence to the Annual Governance Statement.

The Audit Opinion for 2019/20 was one of substantial assurance. The work undertaken showed there was a generally sound system of internal control designed to meet the service objectives, and controls were generally being applied consistently. However some weaknesses in the design and / or inconsistent application of controls had put the achievement of particular objectives at risk.

The statement above was intended to provide reasonable assurance. There was an on-going process for identifying, evaluating and managing key risks. Those risks were reflected in the Internal Audit Plan and were subject to their own reporting process during the course of the year which sat outside the Internal Audit role.

Those charged with Governance were reminded that no system of control could provide absolute assurance against material misstatement or loss, nor could Internal Audit give that assurance.

The main report also included detailed information on the following matters:-

- Purpose and boundaries;
- Review of internal control;
- Significant Issues arising in 2019/20;
- Audit Performance; and
- Analysis of Audit activity during 2019/20.

Councillor Michael Miller enquired about the additional high risk areas having been reviewed, but not included in the audit plan, as referred to in paragraph 4.4 of the substantive report, and queried the impact on those planned audits which had needed to be dropped as a consequence, such as debt recovery arrangements. Mr Beard responded that debt collection had been the subject of numerous earlier audit work. Table 6 of the report showed planned day work against actual days work undertaken. The Committee would consider at its March meeting whether any of the delayed/deferred items would roll forward into the following year's Audit Plan. A number of the delayed items from 2019/20, were currently being worked on in 2020/21 and were identified in the report at Agenda Item 5.

Councillor Tim O’Kane referred to the additional work of 10.4 days regarding Christmas Lights (p.61 of the Agenda) and noted that Cabinet had recently requested the improvement of lights across the whole Borough. Mr Beard responded that that the work recorded in the report was in relation to a request by Management Team and the Facilities Team to look into contract and budgetary processes for the purchase, erection and removal of any lights. The work did not look into the details of the individual displays to be provided.

Resolved - **That the Committee notes the content of the Annual Internal Audit Report and Audit Opinion for 2019/20.**

69 Audit Plan Progress Report

Members considered a report of Mark Beard, Head of Audit and Investigations, which identified the Audit Reports issued during the period March 2020 – November 2020 and which brought key issues to the attention of the Committee. Mr Beard provided a summary of the main findings of the report.

The report covered an extended period of March 2020 to November 2020 due to Audit Committee not taking place in July 2020. The audit areas and any key issues were detailed within an Appendix to the main report and included the following areas:-

- Christmas Decorations Budget (Substantial assurance);
- Debtors Processes (Comprehensive assurance);
- Insurance Arrangements (Substantial assurance);
- Hub - Shopping Vouchers (Substantial assurance);
- Council Tax (Comprehensive assurance);
- Rhyddings Park (Comprehensive assurance).

Members were reminded that the number of audit reports that were issued between each Committee meeting was subject to variation dependent on the size of the audit and any non-routine audit work, such as investigations, that the Team might be involved in. Therefore, for the purpose of reporting, only the audit reports fully completed, issued and agreed would be included.

Any investigations that might be carried out would not be included as a matter of routine in the report, particularly if they related to a specific individual or individuals.

There was a target of 98% of the audit plan to be completed by the end of 2019/20 in terms of audit days completed:-

Position as at end of March 2020 = 93.34 % of the plan completed

The position at the end of March 2020 could be broken down as follows:-

Month	% of the Plan Completed that Month
April 2019	8.24%
May 2019	6.97%
June 2019	6.16%
July 2019	9.01%
August 2019	7.80%
September 2019	8.06%
October 2019	9.60%
November 2019	7.75%
December 2019	4.91%

January 2020	8.44%
February 2020	7.69%
March 2020	8.72%

There was a target of 98% of the audit plan to be completed by the end of the current financial year in terms of audit days completed. As the audit team completed timesheets which then fed into the audit plan, it was possible to state the progress to date and the projected end of year position if that date was extrapolated out. Therefore:-

Position as at end of October 2020	=	55.55% of the plan completed
Projected out-turn position for 2020/21	=	95.23% of the plan completed

The position at the end of October 2020 could be broken down as follows:-

Month	% of the Plan Completed that Month
April 2020	6.34%
May 2020	7.07%
June 2020	8.73%
July 2020	9.13%
August 2020	7.66%
September 2020	7.64%
October 2020	8.98%

The projected out-turn position for the year was based on the 7 month period April 2020 to October 2020 and assumed that the output would remain at a constant for the remainder of 2020/21.

Councillor Tim O’Kane enquired if the Christmas Decorations Budget recommendations had now been implemented or had been delayed to due to COVID-19 priorities. He also enquired about the Hub - Shopping Vouchers and the public perception that recipients could spend the vouchers on luxury items, such as cigarettes and alcohol. Mr Beard responded that the voucher scheme was tightly controlled and that any assumptions made about profligacy were false. He reiterated that the work around Christmas lights had been around the process not the actual displays arranged. Substantial improvements in lighting displays could not be achieved this year, due to timing issues, but might be possible next year.

Councillor Michael Miller enquired about work regarding Rhyddings Park, as he believed that all aspects of the project had now been completed. Mr Beard confirmed that the project had been completed, but that the audit work was connected to the grant funding which might be subject to on-going monitoring by that external funding body.

Resolved - **That the Committee notes the content of the report summarising the Audit Reports issued during the period March 2020 – November 2020.**

70 Follow Ups Progress Report

The Committee considered a report of Mark Beard, Head of Audit and Investigations, which informed Members of the outcome of routine follow-ups, following the previously agreed action plans for completed Audit Reports. Mr Beard provided a summary of the main findings of the report.

This report covered the period March 2020 - November 2020. The audit areas followed up and any key issues, were detailed within an Appendix to the main report and included the following areas:-

- Cloud Storage and Server Room Security;
- Risk Management;
- Christmas Decoration Budget;
- Markets; and
- Markets (controls).

Following the agreement of the recommendations between Management and Internal Audit upon the completion of the audit assignment, the area was revisited by Internal Audit and the recommendations were reviewed to ensure they had been implemented as agreed. The process was known as the 'Follow-Up'.

Internal Audit assessed the current position against what had been agreed at the end of the audit. Where no action had been taken by the Service Area, then Internal Audit would question why and issue a revised Action Plan. Part of the control within the process was consideration by Audit Committee of any issues that arose. The Committee had the ability to ask questions of Management in the relative service areas as to why they had not acted upon the agreed Action Plan. The Committee could also express what its expectations would be with regard to such a problem occurring.

Internal Audit aimed to carry out a Follow-Up for each completed audit area within 6 months of completion. However there were a number of exceptions to that aim:-

- i) Follow-Up in 6 months would be pointless if the recommendations were of a low enough priority to allow a longer timeframe.
- ii) Work of the Audit Team did not allow the Follow-Up to be carried out. Although Follow-Ups were an important part of the process the Head of Audit and Investigations always had to weigh this against the need for achieving the Audit Plan and auditing the risks the Council faced.
- iii) There were no recommendations arising from the original audit.

Councillor Michael Miller commented that the Markets had been struggling for a number of years and that audit work should perhaps have been carried out sooner. Mr Beard responded that the latter group of 8 recommendations had been in response to a specific set of circumstances which had not previously occurred. The total number of recommendations in respect of Markets (17) might appear to be excessive, but they covered numerous different aspects of the service. The Markets' Management now had a robust set of processes in place.

Councillor Tim O'Kane suggested that the relevant Overview and Scrutiny Committee be invited to consider the decision of the Cabinet reported on 12th September 2019, to extend the Christmas Lighting contract to allow a new 4 years contract to be let by tender in January 2020. Councillor O'Kane was concerned that the smaller townships had differing needs, which might not be addressed effectively under a single contract and that smaller contractors might offer better value for money and be more responsive to local plans. Mr Beard responded that the decision by Cabinet had envisaged the delegation of the decision to award future lighting contracts to the Regeneration and Property Manager. The new contract had been through a full tender exercise and Lancashire County Council had been successful.

Councillor Kate Walsh enquired about the success of the Markets' Management in monitoring opening hours of market stalls in line with the new three year leases. Mr Beard responded that the issue had arisen from the fact that market stalls sometimes remained closed while the Market Hall was open, which detracted from the overall customer experience. A more consistent pattern of opening could help to promote better footfall. The Audit work had helped to ensure that the rules about opening times were clear and fully understood by traders.

Resolved

- (1) That that Committee notes the content of the report summarising the outcome of routine follow-ups following the previously agreed action plans for completed Audit Reports.**
- (2) To refer to the relevant Overview and Scrutiny Committee, the arrangements for the use of a single contractor for the installation, maintenance and dismantling of Christmas lights decorations, cribs and trees within the Borough.**

71 Public Sector Internal Audit Standards - Quality Assurance & Improvement Programme

Members considered a report of Mark Beard, Head of Audit and Investigations, regarding the Quality Assurance and Improvement Programme (QAIP), which set out how the Internal Audit Team managed any of the Public Sector Internal Audit Standards (PSIAS) that were not compliant. Mr Beard provided a summary of the main findings of the report.

The PSIAS had been in place since 1st April 2013 and replaced the former Code of Practice for Internal Audit in Local Government 2006.

The Internal Audit Team were required to work within the Public Sector Internal Audit Standards (PSIAS). Where the team was either partially or not compliant with any of the Standards, these were detailed within the Quality Assurance and Improvement Programme (QAIP).

The Standards were subject to a self-assessment, which was carried out annually by the Head of Audit and Investigations and also an external assessment carried out a minimum of once every 5 years. The last external assessment of Internal Audit's conformance with the Standards took place in February 2018 where Internal Audit had been reported as having over 98% compliance with the Standards.

The Standards stated that there should be a QAIP in place to demonstrate both how conformance with the Standards was monitored and met, together with what was in place for those areas that did not fully comply with the Standards. Members considered the QAIP document as at 31st March 2020, which detailed 'Partially Compliant' or 'Not Yet Compliant' Standards and showed their status as either 'Open' or 'Closed'.

The QAIP also included the five recommendations arising from the External Assessment of Internal Audit against the Standards.

Resolved

- That the Committee notes the content of the report on the Quality Assurance and Improvement Programme (QAIP) in connection with the Public Sector Internal Audit Standards (PSIAS).**

72 Draft Statement of Accounts 2019/20 (subject to audit)

Members considered a report of David Donlan, Head of Accountancy, on the Draft Statement of Accounts 2019/20, which were subject to external audit. Mr Donlan was present at the meeting and highlighted key information within the report.

The Committee was invited to approve the submission of the un-audited accounts for 2019/20. A copy had been placed on the Council's website with effect from 19th November 2020.

The substantive report included details on the following:-

- Narrative Report;
- Annual Governance Statement;
- Independent Auditor's report (see below);
- Statement of Responsibilities;
- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow Statement;
- Notes; and
- Collection Fund and Notes.

Grant Thornton, the Council's external auditors, were yet to undertake their audit of the accounts, as at the time of writing the report.

The initial deadline for production of the draft accounts had been 31st May 2020, but it had subsequently been moved back to 31st August 2020, as a result of pressures on Local Government in producing the accounts due to the potential impact of Covid-19. The deadline for the audit of those accounts had also been moved back, to the 30th November 2020.

The report asked the Committee to note the late completion of the draft accounts, beyond the deadline, and the Council's failure to comply with its statutory duty to submit the un-audited accounts for 2019/20 by the date above. There were a number of reasons for this including the unforeseen impact of Covid-19 on the Council's working arrangements, the initial teething problems encountered with remote working, and issues relating to staff resources such as difficulties in filling crucial vacant posts.

The formal audit findings would be reported at a future Audit Committee meeting.

The period for the public inspection of the accounts began on the 23rd November 2020 and was due to end prior to the completion of the audit.

Once confirmation had been received from Grant Thornton that the audit was complete, a 'Notice of Conclusion of Audit' would be published. It would explain that the audit of the Council's accounts had finished and state where the accounts and auditor's report could be inspected.

The Audit Committee had responsibility under the Council's management arrangements for approving the roll forward of Slippage on the Capital Programme from one year to the next. Cabinet had previously received the report included as Appendix B on the Capital

Programme for 2019/20 and had asked Audit Committee to consider approving the list as shown.

Councillor Michael Miller enquired about any developments in relation to the temporary re-designation of a post as Executive Director Environment, which had taken place around one year ago. Mr Donlan advised that the Statement of Accounts for 2019/20 would record the financial implications of that change of role. Julian Joinson, Member Services Manager reported that it was understood that the staffing arrangements had been made permanent at a recent meeting of the Council's Management Review Committee. Further details would be provided to Members in writing outside of the meeting.

The Chair enquired about the amount of Unusable Reserves (£6.6M) identified on page 165 of the Agenda. Mr Donlan commented that the largest single item was the Pensions Reserve. None of the unusable reserves would impact on the level of Council Tax required because they were accounting entries that did not affect taxation.

Councillor Tim O'Kane noted that the cost for Accumulated Absences Account in Unusable Reserves (£129k) had increased from the previous year's figure of (£99k). Mr Donlan reported that the figures had to take account of unused leave at year end, when staff carried forward leave. The amount carried forward in 2019/20 might have increased due to staff being unable to take leave at the height of the pandemic. However, staff had been encouraged to take leave in so far as this was possible. The Chair noted that a similar situation might arise at the end of March 2021.

Councillor Chris Knight acknowledged the hard work of the Council's Deputy Chief Executive and the wider Finance Team for their work during the pandemic, particularly to support residents and businesses through the financial effects of Covid-19.

Resolved

- (1) That the Committee notes the Council's Draft Statement of Accounts for 2019/20 in Appendix A.**
- (2) That the Committee notes the failure to submit the draft Statement of Accounts by the statutory deadline of 31st August 2020 and the reasons why.**
- (3) That the Committee approves the Slippage on the Capital Programme as shown at Appendix B.**

73 Audit Update (Grant Thornton)

Andrew J Smith was in attendance on behalf of external auditors, Grant Thornton, to provide a verbal update.

The auditors had now received the Draft Statement of Accounts 2019/20 and were starting to review them. The audit work should commence before Christmas, although it was acknowledged that it was taking 30%-40% longer to carry out this work in the virtual environment. The auditors' staff also had a number of other priorities.

It was anticipated that the audit would be concluded by 8th March 2021 in time to report to the next scheduled meeting of the Committee. The audit team would work closely with Mr Donlan throughout this process.

The auditors were also carrying out other work, including Housing Benefits certification. As part of the Council's return to the Department for Work and Pensions (DWP), Grant Thornton had to certify its own claim. The return was normally required by the end of

November, but the deadline for this year had been extended to the end of January 2021, due to the pandemic.

Resolved - **That the Committee notes the report of the external auditors, Grant Thornton.**

74 Time/Date of the next meeting

The next meeting of the Committee was due to be held on Monday 8th March 2021 at 5.00pm.

Signed:.....

Date:

Chair of the meeting
At which the minutes were confirmed