
AUDIT COMMITTEE

Monday, 7th March, 2022

Present: Councillor Chris Knight (in the Chair), Councillors Dominik Allen and Caroline Montague

Apologies Councillor Michael Miller, Tim O'Kane and Kate Walsh

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

Apologies were submitted on behalf of Councillors Michael Miller, Tim O'Kane and Kate Walsh.

There were no Declarations of Interest, Dispensations or Substitutions.

281 Minutes of the Last Meeting

The minutes of the last meeting of the Audit Committee held on the 29th November 2022 were submitted for approval as a correct record.

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

282 Risk Management Monitoring Report

Stuart Sambrook, Policy Manager, introduced a report to inform the Committee of the outcome of the review of the Strategic, Generic and Operational Risk Registers.

Members were informed that, at its meeting on 29th September 2003, the Standards Committee had been provided with details of the Council's Risk Management Policy and associated Strategic and Operational Risk Registers. The 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 these risks wherever possible. The 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 report now provided and any associated documents. A table was also provided setting out the definitions for high, medium and low risks. The guidance suggested the Council should review the adopted definitions of risk on a regular basis. This review was likely to take place over the summer.

In order to manage and control *high* risks, good practice suggested that the Management Team receive a regular update on control measures and their corresponding controls. The definitions adopted by the Council for *likelihood* and *worst impact* no longer effectively identified appropriate threat levels, particularly in relation to strategic risks covering the climate emergency and the pandemic. These risks might not occur regularly but the nature of their long term ramifications would place them at a high level of risk, in spite the current definitions outlined in the table referred to above.

In 2020/21 a large number of amendments had been made across all three Risk Registers in relation to the pandemic, lockdowns and subsequent easing and rule changes. At the commencement of 2022/23, the urgency of the earlier stages of the pandemic were subsiding, however the remaining uncertainty might mean pandemic-related risks on Council services and the community remained high. In order to go forward, the Council's Management Team had been asked to determine whether these risks remained high or should be lowered.

COVID-19 and the future of COVID was an unknown, particularly around variants. The Council could be required to step up its response again quickly and with the response teams no longer in place this could be problematic.

The changes to the risk registers reflected in the report were correct as at Wednesday 9th February 2022. A separate report had been presented to Management Team on 16th February, 2022.

There had been four major changes made to the Strategic Risk Register, as summarised below and 3 minor changes, as set out in Appendix 1 to the report.

Area	Change	Risk Rating With Controls
NEW RISK		
Financial	<u>Risk</u> The acquisition of key town centre buildings and delivery of a £22 million regeneration project within Accrington Town Centre <u>Risk Owner</u> Chief Executive	High
Environmental	<u>Risk</u> Failure to deliver on Council's Climate Declaration pledge and achieve Council operations Carbon Zero by 2030. <u>Risk Owner</u> Chief Executive	High
CHANGE OF RISK RATING		
Customer / Citizen	<u>Risk</u> Pandemic can cause harm to the health and wellbeing of the local Hyndburn community <u>Risk Owner</u> Chief Executive	Original Rating High Revised Rating Medium
Economical / Reputational	<u>Risk</u> Pandemic effect on Council's financial services, staffing arrangements and service delivery <u>Risk Owner</u> Chief Executive	Original Rating High Revised Rating Medium

There had been one major change made to the Generic Risk Register, as summarised below and 4 minor changes, as detailed in Appendix 2 to the report.

Area	Change	Risk Rating With Controls
CHANGE OF RISK RATING		

Area	Change	Risk Rating With Controls
Environmental	<p><u>Risk</u> Failure to conserve energy and reduce emissions thus resulting in excess costs to the council and a negative impact on the environment.</p> <p><u>Risk Owner</u> Management Team</p>	<p>Original Rating Low</p> <p>Revised Rating High</p>

There had been no major changes to the Operational Risk Register, but a number of minor changes (10) had been made, details of which were provided at Appendix 3 to the report.

A summary of all 104 risks contained within the three registers was also provided at Appendix 4 of the report.

Resolved - That the Committee notes the Risk Management Monitoring Report.

283 Audit Reports and Key Issues - Progress Report for the Period November 2021 - January 2022

Mark Beard, Head of Audit & Investigations, presented a routine report to inform Members of the Audit Reports issued during the period November 2021 – January 2022 and to bring to the attention of the Committee what the key issues were.

The report included a list of the audit areas and any key issues, a summary of which is provided below:

Service/Topic	Audit Assurance Opinion Issued	Comments
Write off Processes	Substantial assurance	<ul style="list-style-type: none"> The audit found that there were some NDR / Council Tax Write Offs where these had not been counter-authorised within the Accountancy Team. However, these were dealt with prior to the completion of the audit and all other paperwork, processes were found to be in place.
Car Loans and Leasing	Comprehensive assurance	<ul style="list-style-type: none"> Whilst the audit did not find any issues, the question was raised as to whether consideration should be given to reviewing the current car loan and lease scheme in conjunction with the Council's Green review. The introduction of a salary sacrifice scheme for all employees would support the Council's commitment to achieving carbon neutral status, as the vehicles offered would be electric, hybrid or ultra-low emission. The Authority would also make savings in relation to both national insurance and pension contributions for employees taking part in the scheme.

		<ul style="list-style-type: none"> The Deputy Chief Executive stated the Council obtained some advice from PWC a few years ago on introducing a salary sacrifice scheme. They concluded that the benefits already provided by the Council under the car scheme outweighed those that could be obtained from introducing a salary sacrifice scheme.
Elections and Electoral Register	Comprehensive assurance	No issues arising
Treasury Management	Comprehensive assurance	No issues arising

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 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 January 2022	=	78.73% of the Plan completed
Projected out-turn position for 2021/22	=	94.48% of the Plan completed.

The position at the end of October 2021 could be broken down as follows:-

Month	% of the Plan Completed that Month
April 2021	7.54%
May 2021	6.35%
June 2021	6.44%
July 2021	10.09%
August 2021	7.89%
September 2021	6.83%
October 2021	8.72%
November 2021	8.46%
December 2021	5.69%
January 2022	10.72%

The projected out-turn position for the year was based on the 10 month period April 2021 to January 2022 and assumed that the output remained at a constant for the remainder of 2021/22.

The Chair asked whether a record was maintained of the numbers of staff signing up to the car loan/leasing scheme. He commented that this was not dissimilar to the type of benefit provided by company cars for senior staff in private businesses. The Chair also enquired if a pool of vehicles was available for other staff to use. Mr Beard responded that full records of participants were maintained. However, the scheme was not really like a company car

scheme, as staff paid for a lease, which was sourced by the Council. To a certain extent pool vehicles were available, but such vehicles which were part of the Council's fleet and could only be driven by those staff who had been trained for fleet usage. In particular, fleet vans were used to support various events.

Resolved - **That the Committee notes the content of the Audit Areas and Key Issues Progress Report.**

284 Audit Follow Up Update

Mark Beard, Head of Audit & Investigations, presented a report to inform Members of the outcome of routine follow-ups following the previously agreed action plans for completed Audit Reports. The report covered the period November 2021 – February 2022.

Following the agreement of the recommendations between Management and Internal Audit following 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. This 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 this 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 a low enough priority to allow a longer time frame.
- 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 & Investigations would always have 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.

Details of the follow-ups carried out and actions implemented during this period were provided as Appendix 1. Mr Beard highlighted key elements of the actions carried out. A list of the topics/service areas covered is as shown below:-

- Car Loans and Leasing;
- Network Controls;
- Treasury Management; and
- Employee Safety.

The 13 actions agreed from the above audit reports had been now been implemented.

An update to the outstanding follow-up Action Plans reported to the Committee Members in November 2021 was provided at Appendix 2 of the report. A list of the topics/service areas affected is as follows:-

- Asset Management/Property Management Income;

- Land Charges; and
- External Body Nominations.

Mr Beard commented that work was on-going to follow up the Asset Management/Property Management Income report, but this had been delayed by other priorities for that service due to COVID-19. Work required included updating the land terrier database; visiting vacant properties; looking at age of debt and customer addresses; checking keys held and; updating the Propman system (the property management system).

In respect of Land Charges, a legal agreement was still awaited from Pendle Borough Council.

Regarding External Body Nominations, the review had been requested by one of the Executive Directors, but implementation of the recommendations had been delayed by COVID-19 and would now be out of date. The work was mainly about processes and was not considered to present any critical risks. The relevant Director had been advised that Audit would no longer follow up this matter and that the Committee would be informed of the closure of this work at today's meeting. The Chair commented that outside body work was often undertaken by ward councillors. He was satisfied that the matter should be closed, but indicated that there may be a need to revisit this at some point in the future.

Resolved - **That the Committee notes the content of the Audit Follow-Ups Update Report.**

285 Audit Plan 2022/23

Mark Beard, Head of Audit & Investigations, presented a report about the Internal Audit Plan for the financial year 2022/23, requesting approval to the proposed Plan and the delegation of authority to the Head of Audit & Investigations to make any minor amendments to the Plan proposed by Corporate Management Team. Mr Beard outlined key elements of the report and Audit Plan.

The Internal Audit Plan was set annually and monitored monthly. This practice was in line with guidance issued by both the Chartered Institute of Auditors and the Chartered Institute of Public Finance & Accountancy. This also linked into the Public Sector Internal Audit Standards. An annual Audit Plan with monthly monitoring allowed the Head of Audit & Investigations to react to changes and, if necessary, to revise the Audit Plan to incorporate these changes.

The Internal Audit Plan formed the work plan of the Internal Audit Team for the financial year. It was risk based and was set annually and was cross-referenced to the Council's risk registers. Any risks within the risk register that were not already reflected within the Audit Plan were added to it.

The 2022/23 Internal Audit Plan had made some alterations which reflected changes occurring within the Council as well as changes designed to streamline the Audit Plan. The tables below detailed these changes:-

Amendments to the Audit Plan

Audit Area	Comments
Business Restart Team	Renamed as Smart Working Strategy and remains in Ad-Hoc Work & Investigations.
Business Support Grants	Deleted from Ad-Hoc Work & Investigations as this is absorbed into a new area of Covid

	Support Grants.
Discretionary Business Support Grants	Deleted from Ad-Hoc Work & Investigations as this is absorbed into a new area of Covid Support Grants.
Isolation Support Grants	Deleted from Ad-Hoc Work & Investigations as this is absorbed into a new area of Covid Support Grants.
Lockdown Support Grants	Deleted from Ad-Hoc Work & Investigations as this is absorbed into a new area of Covid Support Grants.
Pandemic Procurement	Deleted from Ad-Hoc Work & Investigations and absorbed into Procurement Arrangements within Non-Core Systems.
Member iPads	Deleted from Non-Core Systems as this covered by a number of other audit areas.

Audit Areas Added to the Audit Plan

Audit Area	Comments
Accountancy Support to other Departments	This was a management request and was added to the Audit Plan. Following risk assessment & scoring it has been included in the 2022/23 Audit Plan.
Covid Support Grants	This was a new area to encapsulate multiple Covid Grant types within the Audit Plan and merge into a single area. Following risk assessment & scoring it has been included in the 2022/23 Audit Plan.
Empty Properties	This was a management request and was added to the Audit Plan. Following risk assessment & scoring it has been included in the 2022/23 Audit Plan.
Grant Claim Submission Processes	This was a management request and was added to the Audit Plan. Following risk assessment & scoring it has been included in the 2022/23 Audit Plan.
Levelling Up Fund	This was a management request and was added to the Audit Plan. Following risk assessment & scoring it has been included in the 2022/23 Audit Plan.
Write Backs	This was a management request and was added to the Audit Plan. Following risk assessment & scoring it has been included in the 2022/23 Audit Plan.

There were also 4 areas within the Ad Hoc & Investigations section of the 2021/22 Audit Plan that remained in this section of the Audit Plan in 2022/23. One of the 4 areas was audited in 2021/22, but currently remained in the Ad Hoc section. Another area was in the process of being audited. Of the 2 other areas, these had been re-assessed as part of the 2022/23 Audit Plan planning processes and both areas had scored high enough to be included in the 2022/23 Audit Plan. The 4 areas were:-

- Financial Controls;
- Other Pandemic Grant Funding;
- Transferred Assets (Audit Commenced); and
- Write Off Processes (Audited in 2021/22).

The Audit Plan had been cross-referenced to the latest version of the risk registers (January 2022 version). This contributed to the risk analysis of audit areas and was a key part of the scoring matrix that was part of the overall risk assessment. Where an audit area was reflected in more than one of the risk registers then the score for the highest level of risk was applied. For example, Strategic High risks scored greater than Operational High Risk or Generic High Risk. This weighted scoring reflected the levels of risk and their impacts on achievement of the Council's aims and objectives.

The risk assessment for the Audit Plan considered 9 risk factors. Each of these factors had a score, some of which were weighted according to risk. The audit areas scoring the highest posed a higher level of risk to the Council, in theory. The 9 risk factors used were:-

- 1.) Audit Area covered by a risk in the Risk Registers?
- 2.) Have system changes taken place?
- 3.) Has the service or area been subject to cuts / job losses / restructure?
- 4.) Does External Audit require coverage?
- 5.) Is the audit ongoing, b/fwd or deleted from the 2021/22 Audit Plan?
- 6.) Does the audit area directly affect the Council's financial position?
- 7.) Is it a Council, Management Team or Manager priority?
- 8.) When was the last audit carried out?
- 9.) What is the monetary value / income of the area?

None of the above areas had the ability to affect the assessment process in their own right, which was why the Head of Audit & Investigations believed that the risk process accurately indicated which audit areas could pose a greater risk if left unaudited.

An allocation of 10% of the available audit days had been classified as contingency days. These days were set aside to absorb time spent on ad-hoc pieces of unplanned work, such as investigations which arose during the financial year. The 10% allocation was in line with previous years and previous External Audit recommendations. In addition, contingency set at this level had proved to be effective in previous years.

An allocation of 6 days had been made for audit follow-ups. This was the same as in 2021/22.

An allocation of 42 days had been made for audit advice. This was the same as in 2021/22.

The Audit Plan risk assessment had highlighted 16 audit areas as high risk, a decrease of 13 on 2021/22. The 2022/23 Audit Plan included 15 of these high risk areas. The 1 area not included was at the request of Management due to the area undergoing significant change and restructuring in 2022/23. Management had asked that the area be audited in 2023/24 after these changes had become embedded.

There were 92 medium risk areas, an increase of 27 on 2021/22 and 14 were included in the Audit Plan. The remaining 78 medium risk areas would remain on a reserve list and would be included if other time allocations such as contingency days were not utilised.

There were 28 low risk areas, a decrease of 9 on 2021/22. None of the low risk areas were likely to be covered in the 2022/23 Audit Plan, unless the level of risk significantly increased or a specific issue was identified during the financial year.

As in previous years, the Head of Audit & Investigations had been quite stringent with the allocation of audit days to maximise coverage and believed that the 2022/23 Audit Plan was

challenging, but if achieved would give a good overview of the Council's key risk areas as reflected in the risk registers. It would also assist Management and those charged with Governance in gaining additional assurance on the Council's risk environment and the various activities audited.

The 2022/23 Internal Audit Plan summary was provided as Appendix 1 to the report. (For clarification, Members were advised that the narrative and Appendix section to the Audit Plan had been reversed in error in the printed Agenda papers).

The Chair asked what type of amendments to the Audit Plan, proposed to be covered by delegated powers, would be considered to be 'minor'. Mr Beard indicated that these might include pausing a review, altering timescales or selecting reviews from the reserve list. More significant amendments, such as those that might be caused by the loss of an Audit Team member would not constitute a minor change.

Resolved

- That the Committee:

- (1) Approves the Internal Audit Plan for the financial year 2022/23.**
- (2) Grants delegated authority to the Head of Audit & Investigations to make any minor amendments to the Audit Plan:**
 - (a) proposed by Corporate Management Team without the need for the Internal Audit Plan to be re-approved. This being due to the Audit Committee meeting being before the Corporate Management Team meeting; and**
 - (b) to allow audit resources to be diverted at short notice to risks and issues arising from the Council's ongoing response to the Covid19 Pandemic without the need for the Internal Audit Plan to be re-approved.**

286 2019-20 Annual Audit Letter

Joe McIntyre, Deputy Chief Executive, presented the Annual Audit letter from Grant Thornton UK LLP, which summarised the key findings arising from their work carried out at Hyndburn Borough Council for the year ended 31st March 2020.

The letter set out the following details:

- Executive Summary;
- Audit of Financial Statements;
- Value for Money Conclusion; and
- Reports Issued and Fees.

Mr McIntyre commented that the final letter reiterated the comments made at the previous Committee meeting on 29th November 2021. The auditors had given an unqualified opinion on the Council's financial statements on 9th December 2021. The main concern raised was about the lateness of accounts, which was due to staffing issues and the impact of additional work caused by Government grants provided in response to COVID-19. Staffing

had already been boosted and any other issues would be addressed as pressures from the pandemic waned.

The Overall Value for Money conclusion, was that the auditors were satisfied that, in all significant respects, except one matter identified in the letter, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

It was also reported that Grant Thornton had indicated that they intended to seek additional fees in the sum of £15k for 2019/20, based on increased costs due to COVID and responses provided to queries. The Council was disappointed with this assessment and disputed the additional costs sought. The matter would be referred to Public Sector Audit Appointments Limited (PSAA), who would ultimately determine the matter.

Mr McIntyre commented that the Council's long-standing relationship with Grant Thornton, as its external auditor, was due to come to an end in 2022. During this period the Council had worked closely with a dedicated team of staff from the firm. The authority wished to thank Grant Thornton and its staff for their work over the years. Mazars LLP, had recently been appointed to audit the accounts for the year ended 2021. It was hoped that this too would result in a long and productive relationship. Work was progressing well on the audit of accounts for 2020/21 and this work should be completed by the end of May 2022.

Members were reminded that on 24th February 2022, the Council had accepted PSAA's invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1st April 2023.

Resolved - **That the Annual Audit Letter for 2019/20 in respect of Hyndburn Borough Council be noted.**

287 Audit Strategy Memorandum 2020-21 (DRAFT) for issue

Daniel Watson, Engagement Senior Manager, Mazars (Manchester office), was in attendance at the meeting. Apologies were presented on behalf of his colleague Mike Dalton, Engagement Lead, who had another commitment.

The Committee was invited to consider the Audit Strategy Memorandum circulated with the Agenda which was the final version, rather than a draft. The Memorandum included the following information:

- Engagement and responsibilities summary;
- The Audit Engagement Team;
- Audit scope, approach and timeline;
- Significant risks and other key judgement areas;
- Value for Money;
- Fees for audit and other services;
- Commitment to independence; and
- Materiality and misstatements.

Mr Watson confirmed that the 2020/21 audit of accounts should be completed by the end of next month, allowing future audits to be brought back onto the target timeline. The audit of accounts for 2021/22 would then commence, with a view to meeting the deadline for sign-off of September 2022. It was also possible that the Department for Levelling Up, Housing and Communities (DLUHC) would extend the deadline to November 2022. In terms of the

2020/21 accounts, only around 9% of local authorities had met the regulatory deadlines, so Hyndburn was not out of step with its peers.

An outline was provided of the risks which Mazars considered to be significant in relation to the Council. These comprised the following:

- Management override of controls;
- Net defined benefit liability valuation; and
- Valuation of property, plant and equipment and investment properties (PPE).

Mr Watson indicated that the Value for Money (VFM) process, which was previously part of the audit conclusion, had now changed. Under the National Audit Office (NAO) Code of Accounting Practice 2020, work on VFM arrangements would form part of the Auditor's Annual Report and would provide commentary on three key areas:

- Financial sustainability;
- Governance; and
- Improving economy, efficiency and effectiveness.

Mazars would also follow up on the VFM weakness identified by Grant Thornton in 2019/20, regarding Financial Reporting.

Audit fees totalling £45,201 were identified in the Memorandum, including some variations built in, which were known to PSAA. The Fees would be agreed with the Deputy Chief Executive before being submitted to PSAA. An additional fee of £20,500 was proposed in connection with other work around Housing Benefits Subsidy Assurance. This work was expected to be completed by the end of February 2022. The Department for Work and Pensions (DWP) was also aware of this work.

In respect of materiality, ie. the relative significance or importance of a particular matter in the context of financial statements, this would be set at 2% of gross expenditure (£940k). Performance materiality, ie. a lower amount set to reduce the chances of the aggregate value of the uncorrected and undetected misstatements exceeding materiality, would be set at 60% (£564k). The triviality threshold ie, a reporting threshold for individual errors identified, would be set at 3% (£28k).

Decision - **To note the final Audit Strategy Memorandum 2020-21.**

288 Update on Overspending Variances

Joe McIntyre, Deputy Chief Executive, reminded Members that, at the Committee's meeting on 29th November 2022, Councillor Michael Miller had asked about overspends in the following areas, as set out in the Statement of Accounts for 2019-20:

- Regeneration Services (£184k)
- Policy and Corporate Governance (£156k)

Overall, during that financial year some good surpluses had been achieved, but there had been some negatives.

In respect of Regeneration Services, a £56k deficit was attributable to the loss of rental income, with tenants moving out and the consequential business rates burden falling on the Council in the sum of £24k. There was also around £75k additional expenditure not

budgeted for, such as use of agency staff in the Corporate Property Team due to recruitment difficulties and additional Environmental Health Officers required in the Environmental Protection Team to deal with food safety and environmental nuisance. In some instances, Council staff had been paid to do other work, the cost of which was offset by additional income.

With regard to Policy and Corporate Governance, ie. central staffing, the overspend shown was the result of an accounting practice. When the Budget was set, if Corporate Savings were required, this heading was where any negative variance would be allocated. The Management Team would then work hard to find the necessary savings to reduce this variance. In fact, the Corporate Savings Target for 2019-20 of £165k was achieved.

Decision

- That the verbal update on Overspending Variances for 2019-20 be noted.

Signed:.....

Date:

Chair of the meeting
At which the minutes were confirmed