

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 25 JANUARY 2022

**Present:** Councillors Stevens (Chair), Davies, Edwards, Emberson, Gittings, McElroy (via Microsoft Teams), McEwan and Robinson;

**In attendance** Councillor McElroy was unable to attend in person, so attended and contributed remotely via Microsoft Teams, but did not vote on any of the items; and Councillor Page (in attendance via Microsoft Teams).

### 20. MINUTES

The Minutes of the meeting of 30 September 2021 were confirmed as a correct record and signed by the Chair.

### 21. INTERNAL AUDIT QUARTERLY UPDATE REPORT

Paul Harrington, Chief Auditor, submitted a report providing an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in September 2021.

The report set out a summary of the audit reports in respect of: Payments to Care Providers; Payments to Voluntary Sector Organisations; Staff (Grey Fleet) Vehicle Documentation; and Housing Allocations Scheme. As the Chief Auditor had given 'no assurance' to Payments to Care Providers and 'limited assurance' to Payments to Voluntary Sector Organisations, the full internal audit reports for these two audits were appended to the report.

In relation to Payments to Care Providers, the report stated that the overpayment of around £1m had been triggered after inflationary increases had been incorrectly applied. There was no adequate control/ workflow process around the treatment of inflationary uplifts and no independent review to check for accuracy. Changes were made manually and therefore subject to increased risk of error and potential fraud. In addition, amendments within Mosaic were unable to be reviewed in real time, so issues could take several days to identify and then several more days to ensure they were corrected. The Director of Finance had given assurance that no financial loss had occurred, and that all monies had been fully recovered despite the process failures identified by the audit.

Seona Douglas, Executive Director of Social Care & Health and Melissa Wise, Deputy Director of Commissioning & Transformation attended the meeting and responded to questions from the Committee. The Executive Director reported that some of the recommended actions were already in place and complete and gave assurances that arrangements had been made to oversee and ensure the effective implementation of the other audit recommendations.

In relation to Payments to Voluntary Sector Organisations, the report stated there was reliance on a number of key individuals and a high degree of manual intervention, with limited resilience or a shared understanding of the process between the services. Paying invoices to suppliers on time was a high priority as it could have a significant

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impact on the financial viability of smaller organisations as well as causing reputational damage to the Council.

The report also listed the audits that were currently in progress and gave a summary of investigations work between April 2021 and December 2021.

**Resolved:** That the audit findings in relation to Payments to Care Providers; and Payments to Voluntary Sector Organisations be noted, and the recommendations and management action underway, as set out in the full audit reports, be endorsed.

### 22. EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT SERVICE

Paul Harrington, Chief Auditor, submitted a report providing an overview of the requirements set out in the Public Sector Internal Audit Standards in relation to an External Quality Assessment (EQA) of the Council's Internal Audit service and to inform the Committee of the planned approach to ensure an EQA was procured and completed.

Following discussions with the Director of Finance, it was recommended to engage CIPFA to perform a full external quality assessment of the Council's Internal Audit Service's conformance to the PSIAS and the CIPFA LGAN, to be carried out week commencing 25<sup>th</sup> April 2022. CIPFA was well placed to carry out this assessment, being a champion in public services, one of the professional bodies which set and provided guidance on the standards required of public body internal audit services. The assignment would be carried out by a Lead Consultant, who was wholly independent of the Council to ensure the review was independent of any conflicts of interest and impairment of objectivity. It was noted that the consultant would want to speak to members of the Committee.

**Resolved:** That the approach of the External Quality Assessment of the Council's Internal Audit function, as described in the report, be endorsed.

### 23. IMPLEMENTATION OF THE FINANCE IMPROVEMENT PROGRAMME - PROGRESS UPDATE

Chris Tidswell, CIPFA, presented a report providing an update on progress of the Finance Improvement Programme (FIP) against the plan for each workstream and their deliverables. The report explained that the FIP had two key phases: Phase I was responding to the historic and current issues identified to ensure a sound foundation and 'getting the basics' right. The second phase would concentrate on embedding Phase I delivery and developing the financial management culture and governance framework across the Council.

The audit tracker recommendations (see Minute 28 below) continued to be included within individual workstream deliverables where appropriate and were managed as part of the Plan. There were now ten (previously seven) recommendations within the tracker covered by the Finance Improvement Programme. These were rated as: Red 2; Amber 6; and Green 2. The change in the tracker recommendations followed three additions relating to bank and cash reconciliations since the meeting on 30 September

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2021. As a consequence, there would be increased scrutiny on reconciliations at the next project board meeting.

The report highlighted each workstream's terms of reference and progress against the Plan. Each workstream had a table indicating a RAG rating for its deliverables and Audit Tracker recommendations with the previously reported numbers shown in brackets for reference.

The report also set out the progress made to re-procure the finance system, which was being carried out by the Finance System Board, comprising stakeholders from each Directorate and BfC.

**Resolved:** That the progress being made to implement the Finance Improvement Programme be noted.

### 24. TREASURY MANAGEMENT STRATEGY MID-YEAR REVIEW 2021/22

Stuart Donnelly, Financial Planning & Strategy Manager, submitted a report on the mid-year review of the Treasury Management Strategy. The report provided an update on the activity of the Treasury Management function during the first half of the year for the period 1 April 2021 to 30 September 2021. The report stated that the Council had not taken out any new external long-term borrowing during 2021/22 as at 30 September 2021 and had complied fully with its Treasury Management Strategy Statement (TMSS) as agreed by Council on 23 February 2021. The changes to the Treasury Management Code, Prudential Code, Public Works Loan Board (PWLB) Lending Terms and regulations to improve enforcement of the duty of local authorities to make prudent Minimum Revenue Provision each year were set out in within section 11 of the report. The report had appended the Economics Update and Investment Criteria & Limits for the Committee's information.

**Resolved:** That the Treasury Management Mid-Year report for 2021/22 be noted.

### 25. 2021/22 QUARTER 2 PERFORMANCE AND MONITORING REPORT

Darren Carter, Director of Finance, submitted a report, which had been considered by Policy Committee on 13 December 2021 (Minute 54 refers) setting out the projected revenue and capital outturn positions for 2021/22 for the General Fund and the Housing Revenue Accounts as at the end of September 2021 (Quarter 2, and summarising performance against the measures of success published in the Council's Corporate Plan). The following documents were attached to the report:

- Appendix 1 - Financial Monitoring for Quarter 2
- Appendix 2 - Corporate Plan Measures for Quarter 2
- Appendix 3 - Corporate Plan Measures for Quarter 2 (Charts)

The report explained that the forecast General Fund revenue outturn position as at the end of Quarter 2 was an overspend on service expenditure of £8.176m. This included a structural overspend of £4.201m on DACHS that would need to be addressed as part of the updating of the Medium-Term Financial Strategy, and an overspend on DEGNS of £3.567m, including £4.470m of costs that were attributable to Covid-19. It was

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proposed to fund this overspend through Covid-19 support grant that was available for 2021/22 but had not previously been allocated. It was also proposed to utilise £3.844m of corporate contingencies and £1.838m of the £2.776m of earmarked reserves that had been agreed in the 2021/22 budget. The use of this combination of contingencies and one-off resources meant that a break-even position was now projected for 2021/22.

The report also explained that £4.145m of savings had been delivered to date in the current financial year, with a further £8.126m of savings on track to be delivered by March 2022. Savings of £4.700m were currently categorised as non-deliverable with a further £3.237m categorised as at risk of delivery. The Housing Revenue Account (HRA) was projecting an underspend of £0.874m as at the end of Quarter 2, the General Fund Capital Programme was forecast to underspend by £30.176m in 2021/22, and the HRA Capital Programme was forecast to underspend by £9.873m in 2021/22. The report noted that an additional Open Spaces Improvement scheme totalling £0.153m, which was fully funded by s106 monies, had been added to the Capital Programme. Details of the scheme had been published in the Decision Book (Issue 625 refers), and the Policy Committee had approved the scheme's inclusion in the Capital Programme.

**Resolved -**

- (1) That the report be noted;**
- (2) That the Policy Committee decision:**
  - (a) to use previously unallocated Covid-19 support grant that was available for 2021/22 to fund £8.176m overspend on services, in addition to £3.844m of corporate contingencies and £1.838m of the £2.776m of earmarked reserves that had been agreed in the 2021/22 budget be noted;**
  - (b) to add the Open Spaces Improvement scheme into the Capital Programme be noted.**

### **26. INFORMATION GOVERNANCE QUARTERLY UPDATE**

Michael Graham, Assistant Director of Legal & Democratic Services, submitted a report outlining the action underway to improve the Council's policies, systems and processes for Information Governance following several limited assurance reports in this area.

The report provided an update on: recruitment to key posts in the Information Governance Team and the interim arrangements in place to cover the backlog of Subject Access Requests; the Central Management of FOI requests through the Customer Relations Team, which was aiming to increase responses within the required timescale to 90%, as expected by the Information Commissioners Office; data transparency; the work of the Information Governance (IG) Board; the development of the Information Management Strategy, which would be informed by the technical review which had been undertaken by Leicester City Council. The Strategy was expected to be submitted to Policy Committee on 7 March 2022 for approval. The report also outlined the progress made on training being undertaken by on Cyber

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Security and Information Governance. It was noted that Cyber Security was a key strategic 'red' risk for the authority and there had been a significant improvement in staff who had completed the mandatory training since the previous meeting, but there was still more work to be done to improve the completion rate further. The report explained some of the difficulties that were being experienced in achieving 100% compliance and the action that was being taken to address these issues: discussions with Trades Unions regarding the seriousness of the matter; further pushes to complete training; and consideration of blocking staff access to the network until the training was completed.

**Resolved:** That the progress being made to improve the Council's Information Governance be noted and the future action outlined in the report be endorsed.

### **27. REDMOND REVIEW UPDATE**

Darren Carter, Director of Finance, submitted a report on the progress for the implementation of the recommendations contained in the Redmond Review and seeking endorsement of the proposal that the Council opts-in to the sector-led option for the appointment of external auditors from 1 April 2023.

During 2021, the Government had published two further Redmond Review updates and a technical consultation. A summary of these was detailed in the report. CIPFA would be publishing strengthened guidance on audit committees by April 2022. The guidance would emphasise the role that audit committees should have in ensuring accounts were prepared to a high standard, alongside broader changes including considering the appointment of independent members. A further report would be submitted to the Committee in due course to consider the implications of the updated guidance.

The report explained that, under the Local Government Audit & Accountability Act 2014, the Council was required to appoint an external auditor to audit the accounts. The Council had previously opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. The advantages of continuing with this approach were set out in the report.

**Resolved:**

- (1) That the progress on the implementation of the Redmond Review be noted;**
- (2) That a further report be presented to the Committee following the publication of the updated CIPFA guidance on audit committees;**
- (3) That Council be recommended to accept the Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors for five years from 1 April 2023.**

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### 28. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Jackie Yates, Deputy Chief Executive, presented a report setting out, at Appendix 1, the Implementation of Audit Recommendations tracker report.

The report explained that each recommendation was marked with a percentage complete which correlated to a red/amber/green rating (up to 25% complete: red, between 26% and 75%: amber, over 75% complete: green). Any recommendations that were less than 50% complete but had exceeded their agreed completion date were also marked red.

The tracker report now had 61 high and medium risk recommendations from Internal Audit, of which 12 (20%) were currently green, 32 (52%) were amber and 6 (10%) were red. Eleven recommendations had now been completed and would be removed from the next report.

The Committee considered the format of the information being provided in the audit tracker. The Chair encouraged members to put forward any suggestions to improve the presentation of the data, especially to make the information clearer with respect to compliance with audit recommendations. Generally, the tracker had raised the profile of Internal Audit's recommendations and had created a mechanism to hold the responsible officers accountable for their implementation. The Committee had the discretion to invite officers to its meetings to provide an update on progress towards compliance with those recommendations.

**Resolved:** That the high and medium risk Internal Audit recommendations and the responses to those risks be noted as set out in Appendix 1 to the report.

### 29. CLOSING FINANCIAL ACCOUNTS UPDATE

Darren Carter, Director of Finance, submitted a report on the progress towards the completion of the Council's Final Accounts for 2019/20, which had been published on 10 November 2021. The report detailed the audit work that had been undertaken, including income & expenditure sampling; walk through tests; adjusting items; technical assessments of asset valuations, PFI contracts and pension liabilities (with feedback expected in January 2022); and a draft Statement of Accounts for 2020/21, which was currently being prepared. The Committee was also advised that there had been a successful recruitment process to appoint a new Chief Accountant who would be starting in March 2022.

**Resolved:** That the progress made on the audit of the 2019/20 accounts be noted.

### 30. DRAFT AUDIT PLANNING REPORT 2019/20

Maria Grindley and Adrian Balmer, EY, presented the draft Audit Plan for 2019/20 summarising the initial assessment of the key risks driving the development of an effective audit for the Council and outlining EY's planned audit strategy in response to

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those risks. EY reported that the audit was progressing well and expected it to conclude in April/May 2022.

The planning procedures were ongoing and the Committee would be updated, if there were any significant changes or revisions at its next meeting. The Committee received an assessment of the audit risks and key areas of focus for the external auditors, which included:

- Potential misstatement in valuation of land, buildings and investment properties was assessed as significant for the financial year 2019/20 due to the significant judgements involved;
- Potential error in the accounting treatment of cash reconciling items in main bank account reconciliation - the bank reconciliations would be reviewed to assess any potential impact in 2019/20;
- Group accounts: potential error in consolidation process due to the change in accounting period of RTL and as a result of the related changes, there was a high likelihood that an error may occur on the consolidation process of RTL to the Group Accounts of the Council.

In relation to value for money, EY's risk assessment had considered both the potential financial impact of the issues that had been identified and also the likelihood that the issue would be of interest to local taxpayers, the Government and other stakeholders. The review had identified a significant risk due to the issues covered in the recommendations during the previous two financial years, which required consideration to assess the progress to address these that had been made in 2019/20.

**Resolved:** That the Provisional Audit Plan summarising the initial assessment of the key risks, be noted and further reports be presented to the Committee as necessary.

### **31. HOUSING BENEFIT & COUNCIL TAX SUPPORT SCHEME - RISK BASED VERIFICATION POLICY 2022/23**

Sam Wills, Revenues & Benefits Manager, submitted a report recommending that the Council continued to use its Risk Based Verification (RBV) process in 2022/23. The scheme enabled processing of claims for Housing Benefit payments and Council Tax Support awards to be streamlined, thereby enabling customers to receive payments sooner. The approach also helped to mitigate risk and fraud entering the system. The Council's risk-based verification policy principles had remained unchanged and there were five changes to the Council's 2021/22 Council Tax Reduction Support Scheme but these had no impact on the Risk Based Verification Policy. The Risk-Based Verification Policy 2022/23 and Temporary Covid measures were appended to the report for endorsement but had not been published because they contained exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

**Resolved:**

- (1) That the Risk-Based Verification Scheme 2022/23, as appended to the report, be approved;

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- (2) That the continued use of a Risk Based Verification approach to evidence supporting claims for Housing Benefit and Council Tax support in 2022/23 be approved.**

(The meeting commenced at 6.30pm and closed at 8.28pm).