

Minutes of Audit and Risk Assurance Committee

**Thursday 11 February at 5.00pm
Online Virtual Meeting**

Present: Councillor Bostan (Chair);
Mr Ager (Vice-Chair and Independent Member)
Councillor Allen
Mr Doyle and Mr Hussain (Independent Members)

Officers: Sujit Tour (Director - Law and Governance and Monitoring Officer); Rebecca Maher (Head of Finance) and Peter Farrow (Audit Services and Risk Management Manager);

Also Present: Mark Stocks and Zoe Thomas (Grant Thornton).

1/21 **Apologies for Absence**

Apologies for absence were received from Councillors Jarvis, Moore, and Preece

2/21 **Declarations of Interest**

There were no declarations of interests made at the meeting

3/21 **Minutes**

The minutes of the meeting held on 17 September 2020 were confirmed as a correct record.



Local Government Audit and Financial reporting – The Redmond Review

The Committee noted a report setting out the findings of the Redmond Review, which had investigated the effectiveness of audit in local authorities and the transparency of financial reporting.

The Committee heard that the Review was a result of a range of challenges that had become prevalent nationally:

- Local authority accounts had continued to become more and more complex.
- Authority transactions had become more unusual and innovative.
- The quality of accounts nationally had not met the standard of the Financial Reporting Council (FRC) as is required.
- Reporting timelines had not been workable for both local authorities and auditors.
- Recruiting and retaining staff with the necessary skills and experience for local authority auditing had become difficult.
- There had been a failure of auditors to deliver the policy objectives required under the Local Audit and Accountability Act 2014.
- There had been a lack of public accountability and coherence within the system.
- Market conditions had been fragile, and the fee structure had meant auditors had not been able to fulfil their role in a satisfactory way.

The Committee noted the detailed findings of the national Report:

- Leadership within the system
 - Leadership and knowledge had been found to be lacking and expertise was dispersed around a number of different bodies.
- Procurement and low fees
 - Audit fees in the local authority sector had continued to drop year on year while other sectors had seen an increase.
 - Recruitment and retention in the speciality of local authority auditors was challenging.



- Audit timescales
 - o Audit firms had reported the timescales of the workloads had resulted in peaks and pressure of work to be across the summer months
- Financial reporting
 - o Local authority accounts had been regarded to some extent as more complex and challenging for auditors.
- Governance and transparency
 - o The independence and qualifications necessary for audit committees to consider reports had been questioned on a national level.
 - o Public transparency and accountability had been lacking.
- Property and pension valuations
 - o Auditors had been spending a significant time on property and pension valuations rather than the major areas of expenditure and usable reserves. Auditors had not been developing an understanding of local authority structures and management.

The Committee noted the recommendations arising from the Review: -

- The establishment of a new regulator.
- The scope of fees to be increased allowing for the necessary resources to be available to support local authority audit.
- The deadline for the publishing of local authority audited accounts be moved to the end of September.
- The presentation of the local authority accounts be simplified.
- Local authorities to take a greater role and responsibility for the governance and reporting of audited accounts along with the development of summaries of those reports.

The Government had indicated that it did not support the recommendation to establish a new regulator, however, the Department for Communities and Local Government was working on taking forward other recommendations.



External Audit Progress Report and Sector Update

The committee noted an update on the progress of the external audit. It was hoped that the Audit Findings Report would be issued no later than March 2021, with the opinion on the accounts issued soon after.

The delays encountered in the completion of the 2019/20 audit had been experienced nationally and were not unique to Sandwell.

The Committee heard that two issues would be flagged in the report as areas of significant concern:

- There were particular difficulties in completing the audit of the council's property plant and equipment balances. Regulators had increased scrutiny of these balances which required a greater challenge, scrutiny and more detailed evidence. This increased scrutiny had identified that the current methods of recording and maintaining key information on property, in particular the asset register were inadequate for a Council of Sandwell's size.

Challenges had been made to officers on the provision of impairments (bad debt provisions) in the accounts and also the level of business rates appeals provisions. Management had subsequently reviewed the basis of all the key provisions and significant changes had been made.

The Committee noted that the National Audit Office had issued a new Code of Audit practice for 2020/21 which now required auditors to look at governance in determining value for money conclusion.

It was noted that the new Code required the preparation of an Auditors Annual Report, which would contain a commentary on arrangements to secure value for money and any associated recommendations.

In response to members questions it was noted:

- Assets within the property plant and equipment asset register were at no risk of being lost and were securely backed-up.
- A working group had been established, led by the Interim Director – Regeneration and Economy and the Head of Finance, to look at a new asset management system.



- External auditors would be working closely with internal audit in relation to the new requirement to look at governance as part of the value for money analysis and reports would be provided on a regular basis.

6/21 **Internal Audit Charter**

The Committee received the Internal Audit Charter for review. The Charter was based on the Chartered Institute of Public Finance and Accountancy's (CIPFA) model charter and reflected the requirements of the Public Sector Internal Audit Standards.

The Committee heard that the only change to the Charter was to reflect the arrangements whereby the Council's Internal Audit team provide the internal audit service to external clients

Agreed that the Internal Audit Charter is approved.

7/21 **Internal Audit Progress Report**

The Committee received a report summarising the work carried out by Audit Services between April and December 2020.

The Audit Services and Risk Management Manager reported that:

Day to Day Repairs – It had been found that a number of service areas were not monitoring spend with contractors and on a number of occasions, expenditure had exceeded the original contract limit. In addition, secondary contractors had been used and primary contractors bypassed.

Facilities Management and Roofing Contracts – Officers had been unable to demonstrate the use of primary contractors and due to the amount of reactive work, there was no evidence that contractors had been meeting targets. Auditors had worked closely with the Interim Director – Regeneration and Economy to ensure that necessary controls were in place. The Committee asked that the Director attend a future meeting to report on this.



The Committee heard that the Covid-19 pandemic had impacted on the work of internal audit at a national level, with staff being redeployed to support the processing of business grants. However, staff had now, in the main, returned to Internal Audit.

The Committee noted issues that had arisen from a number of other audits and the recommendations that had been made.

In response to members questions it was noted:

- The 2021/22 plan would also focus on how the pandemic had impacted current governance arrangements as well as considering what had been learnt and what changes had been made.
- The 2021/22 plan would also include a range of strategically focussed reviews.
- There would be a report to a future meeting from the Counter Fraud team, which would include an update on the payments of business support grants during the pandemic.

Agreed That the Interim Director – Regeneration and Economy report to future meeting on the controls put in place around the engagement and payment of contractors responsible for day to day repairs and roofing repairs.

8/21

CIPFA Audit Committee Update

The Committee noted the latest quarterly update from the Chartered Institute for Public Finance and Accountancy (CIPFA). summarising the current 'need to know' topics of interest for audit committee members, along with dates for upcoming seminars that members may attend.

The update lead on the Redmond Review, its focus, CIPFA's response and the next steps for audit committees. It also looked at recent audit developments nationally, the response to the pandemic was of particular note to the Committee.

The Committee noted that while Covid-19 had had an impact on the work of Internal Audit, it was not as significant as it could have been.



COVID-19 and Strategic Risk Register Update

The Committee received an update on the Covid-19 and Strategic Risk Register.

Since last reported to the Committee, the Covid-19 risk register had been updated to reflect the impact of Britain's Exit from the European Union ("Brexit").

The Committee heard that within the Brexit/Covid Register contained seven risks and there were currently four identified as 'red', these included:

- Covid-19 Budgetary Implications- in the medium term there remained significant uncertainty around the level of government funding that the Council would receive.
- Economic Impact - The impact of both Brexit and the pandemic were already known to be significant and this was expected to continue
- Risk to Health, Wellbeing and Life (Residents and Business) - The continued impact of the pandemic and Brexit required mitigation to ensure that effective arrangements were put in place and resources allocated.
- Supply Chain Resilience - In particular, the supply chain in relation to adult social care and care providers continued to be very fragile.

The Strategic Risk Register maintained the Councils longer standing risks, all of which had not changed since the last update. There remained 13 with 6 identified as amber while 7 were 'red'. Three of the red risks (Children's Social Care, Demand for Children's Social Care and Funding and Resource Allocation) were as a result of uncertainty around government funding, which restricted the Council's ability to manage them.



In response to questions from the Committee it was noted: -

- The Covid-19-grants from central government had been sufficient to address immediate budgetary pressures. The identified shortfall in 2021/22 could be from the use of one-off resources, however beyond 2022 it remained uncertain.
- As the Council retained 100% of its business rates, the impact of businesses failing would have an impact on finances.
- Changes to government funding had been delayed due to covid-19, and it was unclear whether the government would seek to recoup the funding given to local authorities, therefore a standstill position was anticipated at present.

10/21

Thanks

The Chair placed on record his thanks to the 4,000 Council employees and their continued efforts to serve the people of Sandwell in such challenging times.

Meeting ended at 6.38pm

This meeting was recorded and is available to watch [here](#)

Contact: democratic_services@sandwell.gov.uk

