

AUDIT COMMITTEE - SPECIAL

THURSDAY 20 MAY 2021 AT 10.00AM

PRESENT: Councillor Meller (Chair); Councillors Birks, Bomford, Mrs Bowman, Mrs McKerrell, and Patrick.

OFFICERS: Corporate Director of Governance and Regulatory Services
Corporate Director of Finance and Resources
Financial Services Manager (Deputy S.151) and Designated Head of Internal Audit
Revenues and Benefits Operations Manager

ALSO

PRESENT: Director, Audit (Grant Thornton)
Councillor Ellis, Deputy Leader, and Finance, Governance and Resources Portfolio Holder

AUC.14/21 APOLOGIES FOR ABSENCE

An apology for absence was submitted on behalf of Councillor Dr Tickner.

AUC.15/21 DECLARATIONS OF INTEREST

There were no declarations of interest affecting the business to be transacted at the meeting.

AUC.16/21 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.17/21 EXTERNAL AUDIT FINDINGS FOR CARLISLE CITY COUNCIL

The Director, Audit (Grant Thornton) submitted the External Audit Findings Report for the year end 31 March 2020.

The external audit was now complete and subject to the Committee's consideration of the report, the work would be signed off with the final report being issued on 21 May 2021.

The Director, Audit (Grant Thornton) noted that an earlier version of the report (submitted to the Committee at its meeting of 18 December 2020), had identified asset valuations in respect of Property, Plant and Equipment (PPE) assets valued under the Depreciated Replacement Cost (DRC) basis required further assurance.

Following a revaluation of the assets, multiple adjustments to the Council's Financial Statements had been required: at the 2020 year end PPE asset values had increased from £57.7M to £73.7M, investments assets had increased from £79.9M to £90.5M. Due to the significant differences in the valuations, it was necessary to restate the 2018/19 and 2017/18 valuations to ensure consistency in the figures shown in the balance sheet. This had also resulted in additional disclosures being required for Prior Period Adjustments (Paragraph 1.7 of the Narrative Statement on page 9 and Note 4.1 on page 43 of the accounts) on what the effect of the revised valuations on the main financial statements (including prior year comparator figures).

The need for the revaluation had been identified following the original valuer not providing appropriate responses to challenges from the External Auditor. Accordingly, the Council reviewed the original valuations and instructed a new valuer to assess the Council's portfolio, which had led to the revised values cited above. Grant Thornton were satisfied that the new valuations were robust and the Director, Audit was able to assure the Committee that the asset base valuations were now solid. A high level recommendation had been raised requiring the Council to complete quality assurance check on the valuations to ensure that the basis of valuations, key assumptions and data sets employed were reasonable.

The Director, Audit (Grant Thornton) commended the Corporate Director of Finance and Resources and the Financial Services Manager (Deputy S.151) for their mature response and handling of the revaluation process.

Grant Thornton's work was substantially complete and there were no matters of which they were aware that would require modification of their audit opinion as outlined in Appendix E, or material changes to the financial statements. The Audit had been completed providing the Council with an unqualified opinion on both the Accounts and the VFM conclusion.

Turning to the issue of fees, the Director, Audit advised that the fees would be significantly more than the originally sum of £51,000 as substantial additional time had been charged to the audit through a combination of a rescheduled start to the audit and the audit on Property Plant and Equipment and Investment Property would require full re-performance. As a result, the new fee was expected to be £81,210, subject to the appropriate approval processes. It was expected that the Annual Audit Letter would be produced in the coming month it would include a detailed breakdown of the additional fees.

In considering the External Audit Findings for Carlisle City Council, Members raised the following comments and questions:

Was the increased audit fee solely related to the PPE revaluation work?

The Director, Audit (Grant Thornton), responded that the majority of the increased fee was as a result of the revaluation work, additional costs related to remote working had been factored into the fee prior to the PPE work. It was further noted that, as a result of the Redmond Review there would likely be a significant increase in audit fees going forward; the proposed fee for next year had been shared with management.

Why has the revaluation of the PPE assets increased their value so significantly?

The Corporate Director of Governance and Resources explained that it had transpired through the external audit process that the original valuer had used inappropriate bases in their valuations. The valuer appointed to carry out the revaluation work had used relevant bases therefore their valuations were considered much more robust.

The Corporate Director of Finance and Resources advised that at the time of appointment, the new valuer had been asked to conduct the valuations for 2021. That data had been received and was undergoing review by the Property Services Team to ensure the accuracy of the information. A tender process to appoint a new valuer would be undertaken in due course.

What impact had the revaluations had on the insurance of the assets?

The Financial Services Manager (Deputy S.151) responded that, in terms of the balance sheet the property valuation and insurance valuations were not the same due to their different focuses. The insurance valuation comprised data relating to rebuild costs, effects of wear and

tear etc. The insurance valuation was updated and reviewed annually as part of its tender process.

A Member proposed that Appendix A (Action Plan) and Appendix B (Follow up on prior year recommendations be referred to the Business and Transformation Scrutiny Panel for information and ongoing monitoring. The Committee indicated its assent.

RESOLVED – That the Audit Committee:

(1) Noted and received the very positive External Audit Findings Report for the year ended 31 March 2020.

(2) Recognised the excellent work undertaken by the Financial Services Team, and the success in achieving the statutory close down. The Committee also recognised the contribution of the Grant Thornton team.

(3) Referred Appendix A (Action Plan) and Appendix B (Follow up on prior year recommendations be referred to the Business and Transformation Scrutiny Panel for information and ongoing monitoring.

AUC.18/21 STATEMENT OF ACCOUNTS 2019/20

The Financial Services Manager (Deputy S.151) submitted report RD.03/21 presenting the Council's Statement of Accounts 2019/20 which had been subject to a two-month audit process, (commencing in September and with a statutory deadline date of 30 November 2020).

Due to the impact of the revaluation of the Council's Property, Plant and Equipment (PPE) it was necessary to restate the 2018/19 and 2017/18 valuations to ensure consistency in the figures shown in the balance sheet. This also resulted in additional disclosures being required for Prior Period Adjustments (Paragraph 1.7 of the Narrative Statement on page 9 and Note 4.1 on page 43 of the accounts) on what the effect of the revised valuations on the main financial statements (including prior year comparator figures).

The Committee were asked to approve the Statement of Accounts, following which the Chair would be required to sign the relevant documents.

RESOLVED – That the Audit Committee approved the 2019/20 Statement of Accounts, noting that also included the Annual Governance Statement.

AUC.19/21 LETTER OF REPRESENTATION 2019/20

The Financial Services Manager (Deputy S.151) reported (RD.02/21) that the audit of the Statement of Accounts for 2019/21 was substantially complete with the Auditors' Audit Findings Report (ISA260) having been considered earlier in the meeting. Following approval of that report, the Auditors would issue their formal opinion and the audit process for 2019/20 would be complete.

However, in accordance with Auditing Standards, a Letter of Representation (a copy of which was appended to the report) must also be considered and approved by the Audit Committee prior to the Audit Opinion being provided. Once approved by the Committee it would be signed by the Corporate Director of Finance and Resources on behalf of the City Council.

Members were asked to approve the Letter of Representation 2019/20, and it was:

RESOLVED – That the Audit Committee approved the Letter of Representation for 2018/19.

AUC.20/21 HOUSING SUBSIDY GRANT LETTER 2019/20

The Revenues and Benefits Operations Manager submitted details of the completed audit of the Housing Benefit Subsidy Claim for 2019/20 undertaken by Mazars (RD.01/21). With a view to providing context for the information contained in the report, the Revenues and Benefits Operations Manager advised that £21.8M of Housing Benefit payments claims had been made during the period covered by the audit. No significant issues had been identified, however the report highlighted two cases of benefit underpayment.

The audit had indicated the need for a review of the Risk Based Verification policy (RBV) to ensure that the verification processes used were necessary and in accordance with actual practice.

The Local Discretionary Scheme (War and Disablement Pensions) had been in place for a number of years without having been recently ratified by Council. The Scheme would in future be incorporated into the Council Tax reports submitted to as part of the Council's annual Budget process. The matter had not impacted the Housing Subsidy.

On the basis of the audit by Mazars, the Revenues and Benefits Operations Manager was content that the process used in relation to housing benefit subsidy were accurate and in accordance with the requirements of the service.

In considering the report Members raised the following questions and comments:

A Member asked how identified cases of underpayment would be addressed.

The Revenues and Benefits Operations Manager advised that once an underpayment had been identified action was taken to address that with the person(s) affected. Depending on the timing of the underpayment, the matter may be reported in the subsequent year's audit.

With reference to Appendix B of the report and the notation that the issue of the underpayments not being considered closed, a Member asked for further detail.

The Revenues and Benefits Operations Manager explained that those matters would be considered in subsequent audits to ensure that they had been effectively addressed.

A number of Members commented that they felt the report was not easily comprehensible and thanked the Revenues and Benefits Operations Manager for his wider explanation of the issues set out therein.

The Corporate Director of Finance and Resources stated that she would take up the matter of the presentation of the report with the appropriate officer at Mazars. She further noted the audit had reported no exceptions or errors which was testament to the work of the staff undertaking housing benefit subsidy work.

With respect to the Risk Based Verification policy, a report would be submitted to the Committee once the review had been carried out.

RESOLVED – 1) That the Housing Subsidy Grant Letter 2019/20 (RD.01/21) be noted.

[The meeting ended at 10:58am]