

## **AUDIT COMMITTEE**

**THURSDAY 24 SEPTEMBER 2020 AT 10.00 AM**

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

**OFFICERS:** Corporate Director of Governance and Regulatory Services  
Corporate Director of Finance and Resources  
Corporate Director of Economic Development (for Audit of Environmental Strategy – Baseline Data)  
Financial Services Manager (Deputy S.151) and Designated Head of Internal Audit  
Principal Auditor  
Policy and Communications Manager (for Audit of Environmental Strategy – Baseline Data)

**ALSO**

**PRESENT:** Key Audit Partner (Grant Thornton)  
Audit Manager (Grant Thornton)  
Deputy Leader, and Finance, Governance and Resources Portfolio Holder  
Environment and Transport Portfolio Holder

### **AUC.17/20 APOLOGIES FOR ABSENCE**

There were no apologies for absence.

### **AUC.18/20 DECLARATIONS OF INTEREST**

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

### **AUC.19/20 PUBLIC AND PRESS**

The Chair moved that the Audit of Environmental Strategy – Baseline Data should be taken as the first substantive item of business in order to facilitate the attendance of an officer at another meeting; and it was:

**RESOLVED** – That the Agenda be agreed as varied.

### **AUC.20/20 MINUTES OF PREVIOUS MEETING**

The Chair moved the Minutes of the Audit Committee meeting held on 30 July 2020; which had been received and adopted by Council on 8 September 2020.

Referencing Minute AUC.12/20 – Audit of Driver Checks (the third paragraph on page 14 of the document pack), a Member clarified that she had emphasised the need for a centralised process to be put in place if the implemented recommendations were not fully effective as part of the Audit follow-up.

The Member requested that the minute be corrected accordingly; and following seconding it was:

RESOLVED – (1) That it be noted that Council had, on 8 September 2020, received and adopted the minutes of the Audit Committee meeting held on 30 July 2020.

(2) That the minutes, as amended by the above-mentioned correction, would be signed by the Chair at the first practicable opportunity.

#### **AUC.21/20 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL**

The Chair moved and Councillor Birks seconded that the Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 23 July 2020 be noted and received.

RESOLVED – That the Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 23 July 2020 be noted and received.

#### **AUC.22/20 INTERNAL AUDIT PROGRESS 2020/21 (APRIL TO SEPTEMBER)**

##### Audit of Environmental Strategy – Baseline Data (Partial Assurance Opinion)

The Principal Auditor provided a detailed overview of the Audit of Environmental Strategy – Baseline Data, highlighting in particular, the key points and associated recommendations.

The following questions and concerns were raised during Members' consideration of the final audit review:

- *A Member commented upon the critical nature of the Environmental Strategy and, accepting the impact of COVID-19, noted that eighteen months had passed since the Council's Climate Change resolution.*

*Speaking in his capacity as a Member of the Climate Change Working Group, the Member had more confidence that the matter was progressing, and that the Council was now working with external partners and sharing data. He did, however, wish to see an indication of the authority's current carbon footprint and timescales for adoption of the Local Environment (Climate Change) Strategy in order to reduce that footprint.*

- *This was clearly an important new area of work for the City Council. A Member expressed concern around the reliability of the data which may potentially lead to the recording of erroneous conclusions. She noted that the dates for implementation of the recommendations emanating from the audit review had now passed and sought clarification as to whether the recommendations, particularly the two high graded recommendations, had indeed been fully implemented.*

*The Member further noted (paragraph 5.3.5) that there was a reliance upon source data owners for the completion of data quality activity prior to the supply of data/information to the Policy and Communications Team. She questioned who were the data owners and whether the Committee could have an example of an instance when data had not been fully checked and verified.*

*The Member was also surprised that there was not an embedded Action Plan and protocol to work to and wondered whether, if there was any slippage in terms of implementation of the audit recommendations, if potentially the formal follow-up audit could be undertaken sooner in order that the Audit Committee could be reassured that had been actioned and the information the Council would be using was effective.*

In response, the Principal Auditor explained that the Policy and Communications Team had been in touch regarding implementation of the recommendations and potential early follow-up. Discussions would be required to ensure that Internal Audit was in a position to action that. Since the audit follow-up had not yet taken place, he could not immediately verify whether the recommendations had been implemented.

There were numerous data holders across the Council in terms of officers with responsibility for items such as heating bills; fleet vehicles, etc. The issue was around the establishment of a plan to ensure that joined up communication took place.

Speaking by way of introduction and focus, the Policy and Communications Manager emphasised that it was worth noting that this was an emerging area of scientific work. The City Council had been working with external consultants "Small World Consulting Ltd" who were a leading scientific body which undertook carbon footprinting and they themselves were clear that it was not an exact science. Guides and protocols were in place; it was a question of translation thereof into a policy, working practice and procedure for the Council.

The Policy and Communications Manager had invited Internal Audit to undertake a review early in the process in order to avoid a scenario whereby an erroneous carbon footprint was published which subsequently had to be withdrawn. Though the review had received a partial assurance, it did highlight gaps and weaknesses. It was important that the baseline data was of great integrity so that all could have confidence in the carbon footprinting.

In terms of the two high graded recommendations, the Policy and Communications Manager stated that:

Recommendation 1 – although delayed somewhat by COVID-19, the Policy and Communication Service Plan had been updated and the actions strengthened in terms of both policy development around the Strategy, the performance reporting and data quality. That now linked into the carbon footprinting work.

Recommendation 2 – a working document was in place. Work was ongoing with other local authorities to ensure the adoption of a consistent and Cumbria-wide approach to carbon footprinting. That action had therefore been completed. It was emphasised that definitions and procedures would require to be kept up-to-date moving forward.

Speaking in relation to the timing of the follow-up review, the Corporate Director of Finance and Resources indicated that partial assurances were normally followed up six months after completion of the original report in order to afford the client time to implement the recommendations. The Principal Auditor and his Team also worked to an agreed Audit Plan during the course of the year; an early follow-up review would therefore have an impact upon that workload. She was aware that the Principal Auditor was in discussion with the Policy and Communications Manager at the moment.

The Corporate Director's concern was that, if all of the said recommendations had not been implemented and Internal Audit could not provide the necessary assurances to the Committee, there was a risk of another partial assurance level. She wished to avoid that scenario and emphasised the need to give the Corporate Director of Economic Development; the Policy and Communications Manager; and the Climate Change Working Group time to ensure that all of the recommendations were implemented before Internal Audit undertook a follow-up review.

- *Would the Local Environment (Climate Change) Strategy result in the identification of a Cumbria wide carbon footprint figure as opposed to separate figures for each authority?*

The Corporate Director of Economic Development replied that a Cumbria Climate Change Working Group had been established and had set a figure and date by which to achieve carbon zero. The City Council would fit into that context.

The Corporate Director further commented upon the interesting and very strategic nature of the work, adding that the City Council would require to undertake its own assessment in terms of its carbon footprint in order to implement its Strategy. Given the importance of getting the baseline correct, she welcomed the audit report and the continuing involvement of Internal Audit in that assessment monitoring moving forward.

It should be noted that this was the start of a journey. The Climate Change Strategy would develop over time and she would welcome Internal Audit's input to ensure that the authority moved in the right direction.

- *A Member remarked upon what was an exciting area, adding that the work undertaken was appreciated. Nevertheless, the Audit Committee did need that reassurance and she was aware that the Policy and Communications Manager possessed the necessary skills in terms of document retention; information control; and embedding that process. Hopefully therefore the Committee would receive the required reassurance moving forward that the Climate Strategy was something upon which to build.*

Speaking at the invitation of the Chair, the Key Audit Partner (Grant Thornton) indicated that he had no wish to comment.

In response to a Member's request that a follow-up review be undertaken within six months, the Corporate Director of Finance and Resources cautioned once more against an early review if the audit recommendations had not been implemented due to the effect that could have on the assurance that the Principal Auditor and his Team would be able to provide.

She added that consideration would be given to the potential to undertake a follow-up review within the usual timescales and earlier if that could be accommodated.

**RESOLVED** – That Internal Audit be requested to undertake a follow-up review in order that the Audit Committee may receive assurance around implementation of the audit recommendations; that follow-up to take place within six months if possible.

## **AUC.23/20      EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Audit Manager (Grant Thornton) provided a verbal update, informing the meeting that Grant Thornton's Financial Statements Audit was due to commence the following week. The City Council's Accounts had been submitted within the deadline and all of the working papers appeared to be available. She added that a team was in place and was progressing to commence that work next week.

The Key Audit Partner (Grant Thornton) then indicated that he would provide a wider sector update.

The Key Audit Partner (Grant Thornton) stated that, subsequent to circulation of the papers for this meeting, The Redmond Review had been published and he thought it useful to share with Members the headline messages from that Review.

Context to the Review had been provided to the Committee via previous progress update reports. The overarching theme was for greater accountability and improved transparency for financial reporting moving forward; that reform was urgently required, and that the NAO and MHCLG were both engaged and would encourage use of voluntary undertakings in advance of the potential legislative reforms that were required.

The reforms could be viewed in three broad areas:

#### Reforms to Audit Providers

There was a recognition from Sir Tony Redmond that audit was currently under-priced by, on average, 25% which from the Review Team's perspective was very serious indeed. They recognised the challenges within the sector in terms of external audit provision, also recommending that the timetable be moved because the timetable for the NHS and Local Government had been very much concertinaed into May through to the end of July. From a local government perspective the Redmond Review recommended that the timetable for local government accounts be formalised and pushed back to September.

Clearly all were working in unusual times due to the COVID-19 pandemic, but the proposal would mean sign off of the Council's Accounts in September. There was a need to have greater capacity in terms of properly trained and experienced people to deliver audits; and a recognition that there had been a drain from that very specialist sector, an issue which needed to be addressed by all audit providers in the market. Audit providers could also be sanctioned for poor work, but only in the areas key to the user e.g. in a scenario whereby they had not highlighted that Councils were in potential financial meltdown.

#### Reforms to Council arrangements

Currently, Grant Thornton's Audit Findings Report was very much directed to the Audit Committee as those charged with governance. However, Sir Tony Redmond felt that the profile of the Audit needed to be raised and that Auditors should address full Council each year. Accordingly, in future, final audit reports, annual audit letters, etc should be addressed to full Council to avoid any dilution of key messages. The proficiency of Section 151 Officers; the need for improvement in the accounting arrangements, including the introduction of summary type financial statements; and for an annual formal meeting between three statutory officers and the auditor was also discussed (meetings took place at Carlisle as a matter of course). All Audit Committees should also include appropriately trained independent members.

#### Reforms to the regime

The current Regulations were split across a number of stakeholders and it was felt that regulation should be brought together in formal systems leadership arrangements under the Office for Local Audit and Regulation (OLAR). That would encompass the work of the NAO, PSAA, FRC and ICAEW. To be clear that was not a return to the Audit Commission days. Importantly, it would be a much smaller entity with a budget of c5% of the Commission's. A stakeholder committee was also to be established, chaired by MHCLG.

The Key Audit Partner added that he had a slide deck which could be shared with the Committee, and future progress reports would provide additional context to the above reforms.

The undernoted observations were then posed in discussion:

- *Speaking from her own perspective, a Member considered the update to be most interesting. She was supportive of the proposed submission of external audit reports to full Council since, when responsibility for financial reporting and approving the Statement of Accounts was delegated to the Audit Committee, there was a concern around that lack of direct accountability or involvement of the full authority.*

*The Member further expressed the hope that a further update on the various aspects of the Redmond Review would be provided to the Committee in due course.*

The Key Audit Partner (Grant Thornton) replied that he would be happy to provide such an update.

The Corporate Director of Finance and Resources said that she was in possession of a full copy of the independent review undertaken by Sir Tony Redmond, which could be made available to Members. She emphasised that the recommendations contained therein were his and the MHCLG would need to respond. It was suggested that a joint report could be submitted to the Committee outlining the impact of the reforms on Grant Thornton and the City Council, and what the recommendations would mean for the Audit Committee.

The Corporate Director added that she proposed to briefly touch on the matter during the Effectiveness Review scheduled for the following month and could provide a briefing paper for the benefit of Members.

In response, the Key Audit Partner (Grant Thornton) was of the view that all the key stakeholders recognised that change needed to happen and at pace, even before legislative reform could be put in place. Grant Thornton would be happy to provide joint training with the Audit Committee as matters evolved, and he could liaise with the Chair on that.

RESOLVED – That the Audit Committee noted and received Grant Thornton's verbal audit progress report and sector update and looked forward to receiving a further update on the implications of the Redmond Review at a future date.

#### **AUC.24/20      INTERNAL AUDIT PROGRESS 2020/21 (APRIL TO SEPTEMBER)**

The Principal Auditor submitted report RD.30/20 providing an overview of the work carried out by Internal Audit between April and September of 2020/21.

Progress against the 2020/21 audit plan was as detailed at Appendix 1. Approximately 17% of planned reviews had been finalised to draft stage; a further 17% of reviews were anticipated to be complete in draft stage by the end of September 2020.

The Principal Auditor advised that four planned pieces of work had been completed in the period, namely Audit of Absence Management; Audit of Environmental Strategy – Baseline Data; Audit of Insurance; and Audit of Fees and Charges – Value for Money.

He further summarised for Members the information provided at paragraphs 2.3; and Sections 3 and 4 concerning utilisation of the Audit resource during the period; performance indicators; and audit recommendations.

- *Referencing page 39 of the document pack – IT General Controls, a Member noted that the status recorded that a contract had been signed with a supplier to provide a managed Security Information and Event Management (SIEM) service, and it was anticipated that would be live by August 2019. She questioned whether any delay had occurred in relation thereto.*

In response, the Principal Auditor explained that the recommendation alluded to was as agreed in this year's Audit Plan. Due to the concerns around ICT a formal follow-up of all outstanding ICT risks would be undertaken once the new ICT Head of Service was in post.

- *A Member welcomed production of Appendix B in A3 format which aided readability. In terms of the issue of resources, clearly the Committee needed to be aware that Internal Audit was working at reduced capacity; also impacted by factors such as home working, which may result in slippage of the Audit Plan.*

*She was of the view that the Committee needed to endorse its agreement that, if additional resources were needed, that should be actioned to ensure that a sufficient level of audit work was done within Internal Audit this year.*

*Another Member echoed those sentiments.*

- *Referencing Appendix B – the revised completion dates which were greyed out, a Member questioned whether that indicated that the recommendations were complete or that revised completion dates had not yet been agreed. He further asked whether the recommendations which had not been completed could be listed in date order.*

The Principal Auditor replied that those recommendations which were greyed out had not yet been the subject of a follow-up and therefore only the original completion dates were available. A review meeting was only required in circumstances whereby a recommendation had not been completed at the first attempt. The colour coding allowed specific recommendations to be identified. He could give consideration to the format of Appendix B if required.

*The Member indicated that he was content with that response.*

- *Whilst appreciating the impact of COVID-19 and the hard work being undertaken, a Member noted that certain of the recommendations within Appendix B were now overdue by several months which was cause for some concern. She asked whether any follow-ups had been undertaken e.g. in respect of D1901 (Tullie House).*

In response, the Principal Auditor explained that a follow-up exercise had not yet been undertaken in respect of the review of Tullie House and it could be that those recommendations had been implemented. He would be writing to the Health and Wellbeing Manager in early course.

The Corporate Director of Finance and Resources summarised the audit review process, advising that she and the Principal Auditor had been discussing the development of a revised and more robust process by which to deal with outstanding audit recommendations; particularly in respect of the implementation of high graded recommendations.

On the issue of resources the key aspect for the Corporate Director when reaching the year end was to ensure that sufficient audit days had been undertaken so that the Designated Head of Internal Audit and the Principal Auditor could provide her with an opinion on the Council's overall internal control environment. In a scenario whereby it was felt that the Audit Plan may slip significantly at the year end, it may be that the part-time members of staff within Internal Audit could be asked to consider working additional hours.

*The Member welcomed the reassurance provided.*

The Principal Auditor then elaborated upon each of the undernoted audits in turn highlighting, in particular detail, the key points and associated recommendations.

## Audit of Absence Management (Partial Assurance Opinion)

- *Speaking in his capacity as a Member of the Absence Management Task and Finish Group, a Member stated that the majority of the elements identified within the final audit report had been discussed by the Group.*

*As regards the inconsistent application of the Council's absence management procedures, it appeared that certain of the line managers did not fully understand the systems. The Working Group had been looking at a revised, stream-lined process together with training provision. Accordingly, he was unsure how the audit recommendations could be progressed from an audit perspective.*

The Principal Auditor replied that the Corporate Director had made reference to the helpful work being undertaken by the Task and Finish Group in her response to the audit recommendations; and that was part of the mitigating actions being put into place.

- *Was statistical information on absence management circulated to all staff?*

The Principal Auditor did not believe that to be so, although the information was publicly available and reported to the Business and Transformation Scrutiny Panel.

Speaking at the request of a Member, the Corporate Director of Finance and Resources expanded upon her comments detailed on page 60 of the document pack; indicating that she did not believe that there was justification for three of the four recommendations to be graded as high, particularly given the timescales for implementation of the said recommendations. [It was agreed that Recommendation 11 was high graded and the timescales for implementation thereof should potentially be brought forward].

The Corporate Director considered the existing Absence Management Policy, which had been reviewed on several occasions, to be fair, containing robust trigger points. That Policy was in place when sickness absence levels were low. The issue related to the inconsistency and application of those trigger points by Managers across the authority, as had been identified by the Task and Finish Group.

She was further mindful that three Members of the Audit Committee also sat on the Absence Management Task and Finish Group, and welcomed the brilliant work being undertaken. The HR Manager was also appreciative of that work which moving forward would hopefully assist Managers to be more consistent in their approach to managing absence.

- *Given the inconsistencies alluded to, and by way of seeking assurance, a Member recommended that the application of the Council's absence management procedures by managers be raised as part of this year's appraisal process, with a view to ensuring that the Absence Management Policy and procedures were understood and consistently applied across the authority.*

In response, the Corporate Director of Finance and Resources advised that, following the conclusion of the Task and Finish Group's work; production of a revised Absence Management Policy and approval thereof by the Employment Panel (if required); that Policy should be relaunched across the authority and steps taken to ensure that a robust training programme was put in place so that Managers and individuals were fully apprised of their respective responsibilities.

*Discussion arose during which the Member raised concerns, in relation to and including the failure of some managers to undertake mandatory training; the need to impress upon managers the importance of complying with the Policy; and the merits of progressing the matter (including monitoring) via the annual appraisal process. Speaking from personal experience as a manager and director the Member also outlined, in some detail, the purpose and merits of appraisals.*

Whilst accepting that there was work to be done towards ensuring the adoption of a consistent approach, the Corporate Director of Finance and Resources noted at paragraph 5.1.6 that 79 out of 82 managers had undertaken the mandatory e-learning module within the last three years. She added that every situation was unique and there would clearly be occasions where managers' discretion was needed in terms of managing absence.

The Member agreed on that latter point.

The Principal Auditor echoed the Corporate Director's statement concerning completion of the mandatory absence management e-learning module.

The Corporate Director of Governance and Regulatory Services concurred with the Corporate Director of Finance and Resources' comments concerning the grading of the audit recommendations. The appraisal process was about individual staff performance assessment and development and, whilst clearly the concerns alluded to required to be addressed, he did not believe that the appraisal process was the correct way to achieve that.

Rather what was required was a firm instruction from management; HR also needed to be more proactive in the enforcement of the Absence Management Policy, particularly when giving advice and assistance to Managers.

Given the excellent work being undertaken by the Absence Management Task and Finish Group; that a new iteration of the Absence Management Policy would be produced; and that certain staff may not be scheduled to have an appraisal for some months to come, the Corporate Director suggested that the Audit Committee may today wish to issue an instruction to the effect that they had a concern regarding the consistent application of the Policy; and request that the HR Manager write to all members of the Management Briefing with clear instructions to ensure that the Absence Management Policies, existing and future, were applied consistently and in accordance with those Policies. Monitoring could then be undertaken as part of the appraisal process.

*Whilst accepting what the Corporate Director had said, the Member emphasised that application of the Policy must be monitored and, if deemed necessary, raised with Managers at their next appraisal.*

*Another Member spoke in support and, given the inconsistencies alluded to, said that it was about identifying where managers required more support and confidence to implement the current Policy; and also where that had been done effectively or perhaps even over zealously. The Member further supported the Corporate Director of Governance and Regulatory Services' view that an instruction be given now to say that the Committee wished to see the current Policy implemented effectively and that, should Managers have any questions or feel that there were areas where they required more guidance, they should be asking for that rather than avoiding their responsibilities, if indeed that was the case.*

The Corporate Director of Finance and Resources added that Organisational Development were in the process of circulating personalised Manager Development Plans, detailing training which had or had not been undertaken, for use during appraisal discussions.

In addition to his advice detailed above, and to address the points raised by Members, the Corporate Director of Governance and Regulatory Services suggested that the Committee also request the HR Manager to contact the Corporate Directors of those Managers who had not completed the relevant absence management training in order that, along with any performance management issues, could be addressed through the appraisal process.

The Member confirmed that she was content with the recommendations based upon the Corporate Director's advice and so moved. The recommendations were duly seconded.

#### Audit of Insurance (Reasonable Assurance Opinion)

- *A Member questioned whether the Corporate Director of Finance and Resources had any remarks to make in addition to her comments detailed on page 97 of the document pack.*

The Corporate Director drew Members' attention to the five recommendations set out from page 103 onwards, some of which had already been implemented. In response to Recommendation 2, for example, the Risk Management Sub-Group was revising procedures to track all outstanding actions and, in addition, ensuring that steps are taken in respect of any issues which require escalation to the Corporate Risk Management Group. The remaining recommendations would be implemented in line with the timescales set out within the report.

The Corporate Director added that it was a very useful audit review and, whilst improvements could always be made, she was assured that an adequate framework was in place to deal with the Council's insurance provision.

*The Member thanked the Corporate Director for her feedback.*

#### Audit of Fees and Charges – Value for Money (Reasonable Assurance Opinion)

*Members had no questions or comments in response to this audit review.*

RESOLVED – That the Audit Committee:

1. Noted the progress against the Audit Plan for 2020/21 set out within Report RD.30/20.
2. Received the final audit reports as outlined in paragraph 2.2; subject to:

#### Audit of Absence Management

The Audit Committee was concerned at the inconsistent application of the Absence Management Policy; and requested that the HR Manager:

- (a) write to all members of the Management Briefing with clear instructions to ensure that the Absence Management Policies, existing and future, were applied consistently and in accordance with those Policies.
  - (b) Contact the Corporate Directors of those managers who had not completed the relevant absence management training in order that, along with any performance managements issues and monitoring thereof be undertaken through the appraisal process.
3. Noted the progress made on audit recommendations to date outlined in Appendix B.

## AUC.25/20 STATEMENT OF ACCOUNTS 2019/20

The Financial Services Manager (Deputy S.151) submitted report RD.29/20 enclosing the Council's Statement of Accounts 2019/20 (subject to audit) which had been certified by the S.151 Officer in accordance with statutory requirements by 31 August 2020 in line with the revised Accounts and Audit Regulations for 2019/20. They would now be subject to audit, which must be concluded by the statutory deadline of 30 November 2020.

During his presentation of the report, the Financial Services Manager (Deputy S.151) commented that account had been taken of any considerations around the impact of COVID-19 on the issues reported in the Statements, which now included comprehensive narrative in that regard. The key issues to which Members' attention was drawn were set out on pages 123 and 124 of the document pack; one of the main increases in the balance sheet relating to the increase in the Pension Fund liability.

The following questions were raised in discussion:

- *What impact had the McCloud judgement had on the pension liability and was that significant?*

The Financial Services Manager (Deputy S.151) replied that the Pension Fund liability had increased significantly over the previous year; and did include some impact of McCloud in addition to COVID-19. It was, however, difficult to assess the split between those two factors on the liability.

- *A Member sought further clarification as regards the S114 notice, commenting that she had not seen reference thereto in previous years' Accounts.*

In response, the Financial Services Manager (Deputy S.151) explained that requirement came out of the reporting around COVID-19 and the sustainability of Local Government finances as a result thereof. A S114 notice would be a requirement for a number of Local Authorities that were not going to be able to issue balanced budgets or which would potentially run out of cash.

The Corporate Director of Finance and Resources added that the requirement and need to issue a S114 notice if deemed necessary had been in place since 1988. It was considered appropriate to make reference to that within the Accounts to justify the going concern accounting concept and she was aware that the Key Audit Partner and Audit Manager (Grant Thornton) would be looking at that as part of the audit of the Accounts and Value for Money conclusion.

On a point of clarification, the Corporate Director said that, at the moment, there was no need for her (as S.151 Officer) to issue a S114 notice in terms of setting an unbalanced budget or incurring expenditure unlawfully.

- *A Member noted that the Accounts made reference to a fair value assessment of the property fund; the ongoing impact of COVID-19 and the type of properties invested in. She questioned whether the Financial Services Manager (Deputy S.151) had a general comment to make in that regard.*

The Financial Services Manager (Deputy S.151) indicated that the City Council had a large long-term investment in the CCLA property fund managed by an organisation with which many local authorities invested. COVID-19 would have an impact on the property industry and upon that investment. The Council had seen its initial investment grow and had benefitted from increased investment dividend returns, but there was currently a reduction in the fair value of

the property fund. The issue was referenced in the Treasury Management report later on the agenda.

The Key Audit Partner (Grant Thornton) commented that the Member's point was well made. The issue presented a challenge and Grant Thornton were in discussion with the Council, both in terms of the valuation of land and buildings, and also on the fair value valuations of its investment properties.

He added that it was recognised across the sector and, in particular, with the Council's valuers that they had raised material uncertainties in and around year end given the impact of COVID-19. Work would therefore take place to ensure that the appropriate disclosures were included within the Accounts; and it was anticipated that would lead to external audit making an emphasis of matter within their audit report.

An important point of note was that the issue had been applied across the board and was not unique to Carlisle City. It would be an area of focus during completion of the 2019/20 audit. An 'emphasis of matter' was not a qualification on the Accounts, rather it purely emphasised the valuers' opinion on the impact of COVID-19.

- *The Member also noted (page 150) that the Council had repaid the £15 million stock issue loan on 22 May 2020 and that no further borrowing to replace it had yet been undertaken. She had understood that the loan had been refinanced in June 2020 and wished to gain a better understanding on that.*

The Financial Services Manager (Deputy S.151) clarified that the £15 million matured in May 2020 and was repaid from the Council's cash balances. There was no need to take out a loan to replenish those balances since the authority was cash rich at the time, primarily because £14 million was borrowed the year before in advance of the Sands Centre redevelopment project, which had not yet been fully spent.

Interest rates had also reduced at the start of the pandemic and had been low ever since. Officers were, however, mindful that there were moves afoot in relation to the Public Works Loan Board financing around the rates that were available to local authorities and would borrow any further financing required as and when it was deemed appropriate.

RESOLVED – That the Audit Committee noted that the 2019/20 Statement of Accounts had been certified as giving a true and fair view by the Corporate Director of Finance and Resources and that they would now be subject to audit.

## **AUC.26/20      TREASURY MANAGEMENT: APRIL TO JUNE 2020**

The Financial Services Manager (Deputy S.151) submitted report RD.22/20 providing the regular quarterly summary of Treasury Management transactions for the first quarter of 2020/21.

Appendix A set out the Schedule of Treasury Management Transactions for the period April to June 2020, whilst Appendix B discussed the Prudential Code and Prudential Indicators for 2020/21. The Executive had considered the matter on 17 August 2020 (Minute EX.98/20 referred).

The Financial Services Manager (Deputy S.151) highlighted in particular the performance on the treasury management budget towards the end of June 2020. Members would note that the interest receivable was higher than anticipated by £47,000 primarily due to increased levels of investment balances.

The dividends received from the property fund had maintained an income of approximately £36,000 per quarter. The yield to the end of June was 4.48%. The valuation of the investment at the end of June was £3,181,143. Interest payable was currently below budget due to no new borrowing entered into yet and also a budget saving against the final stock issue interest payment.

He added that overall investment returns were 0.81% to the end of June 2020 primarily due to investments taken out towards the end of June 2019 when interest rates offered quite attractive rates compared to current rates.

Speaking on a point of clarification, the Financial Services Manager (Deputy S.151) said that one could still see a reduction in revenue collection rates. Council Tax was approximately 1.5 – 2% down on the previous year; with Business Rates experiencing a slightly greater reduction. Officers were commencing some recovery processes which had been postponed at the start of the financial year and would monitor the position over the coming months.

There may well be a level of arrears towards the end of the year; people may be afforded more time to pay their debts which would guarantee some recovery, rather than the authority having to write them off in future. A county-wide group met on a six weekly basis to monitor Council Tax and Business Rates performance. The issue would potentially have an impact on the collection fund deficits at the year end, which in turn would impact upon the Budget for 2021/22. That would be reported through the budget process and the deficit calculations to be undertaken in January 2021.

*The Member appreciated that there may potentially be collection deficits of which the Committee must be mindful.*

The Corporate Director of Finance and Resources stated that, although no formal debt recovery had taken place during COVID-19, a soft reminder process for Council Tax, Business Rates and Sundry Debtors had been undertaken at the beginning of August. The response had been limited, nor had income collection increased, and so Officers would shortly be implementing more formal debt recovery proceedings.

The collection of Council Tax and Business Rates constituted a statutory charge on the authority and would impact not only the City Council's cash flow, but that of the Police and Cumbria County Council who were preceptors on the Collection Fund. There were therefore cash flow implications if debts were not collected.

The Corporate Director further advised that the Government had issued initial guidance that any deficits on the Collection Fund could be recovered over a three year period. Consideration would be given to that detailed guidance upon receipt.

RESOLVED – That Report RD.22/20 be noted.

[The meeting ended at 11.40 am]