

HARBOROUGH DISTRICT COUNCIL

MINUTES OF THE AUDIT AND STANDARDS COMMITTEE MEETING

held remotely on

15<sup>th</sup> October 2020

commencing at 6.30p.m.

Present:

Cllr Dr Bremner (Chairman)

Councillors (remote access): Dunton, Golding, Graves, Hollick (arr. 6.42pm), Nunn and Mrs Wood

Officers present: V. Wenham, S. Green & P. Storey.

Officers (remote access): R. Ashley-Caunt & T. Croote (LGSS – Internal Audit), C. Bland, C. Mason, M. Surridge & V. Gittings (Mazars – External Audit).

APOLOGIES FOR ABSENCE

There were none.

DECLARATIONS OF MEMBERS' INTERESTS

There were none.

CHANGE OF AGENDA ORDER

The Chairman stated that Mazars, the external auditors, would be presenting a verbal update on the External Audit report for the year ended 31 March 2020. This item would be taken at agenda item 6 and Any Urgent Business would now become agenda item 7.

MINUTES

RESOLVED that the Minutes of the Meeting of the Audit and Standards Committee held on 30<sup>th</sup> September 2020 be approved and signed by the Chairman as a true record.

INTERNAL AUDIT – ANNUAL REPORT AND ASSURANCE OPINION 2019/20

R. Ashley-Caunt, LGSS Head of Internal Audit, presented the Annual Internal Audit Report and Assurance Opinion 2019/20.

Based upon the work undertaken by Internal Audit during 2019/20, the Head of Internal Audit's overall opinion on the Council's control environment is that Satisfactory Assurance can be given that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally operating effectively in practice. However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

Appendix A to the report provides a copy of the Annual Report which includes the Head of Internal Audit's opinion on the Council's control framework for 2019/20 and the basis for this opinion. The report includes details of the delivery of the Internal Audit Plan for 2019/20 and achievement of the service's performance indicators. The team delivered 100% of the agreed assignments from the Internal Audit Plan. The annual self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards has concluded that the Internal Audit service operates in general conformance with the Standards.

The Head of Internal Audit stated that the Annual Report is presented to the first meeting of the Committee each Council year and this first meeting is later than usual this year. The report included updates on the implementation of high and medium risks since the report had been written. Some further progress had been made on those items, which were subject to Internal Audit follow up every month, and reports on progress would be made to the Committee in the coming months. Also, several reports had been finalised since the last meeting of the former Governance and Audit Committee in March 2020, on Key Financial Controls, Budgetary Controls, Procurement Compliance and the Homelessness Prevention Act.

A member asked when the Annual Report had been submitted to HDC, as some of the future dates referred to in the report had now passed. The Head of Internal Audit said she did not have the exact date to hand but the date of submission would have been around July 2020.

The Committee was pleased to see that in respect of Corporate Property Investments, the Basis for Assurance Opinion indicated that record keeping should ensure a clear audit trail and that the latest position on projects should be updated and any changes to funding requirements be reported to members for approval.

A member asked whether an update would be provided on the outstanding actions from the CIPFA assessment action plan. The Head of Internal Audit stated that these key actions are not included in the Annual Report and formed part of a benchmarking self-assessment against CIPFA advice which had been reported to the former Governance and Audit Committee in 2019/20. Two key actions had now been completed and it is intended to bring a report to the next meeting of the Committee to provide a further update.

**RESOLVED:**

That the Annual Internal Audit Report and Assurance Opinion for 2019/20 be received and noted.

**CORPORATE RISK AND OPPORTUNITY MANAGEMENT: QUARTER 1, 2020/21**

The Chief officer – Governance & Monitoring Officer presented the Corporate Risk and Opportunity report for 2020.21.

At the end of Quarter 1 there were 34 Risks and 4 opportunities on the Council's Risk and Opportunity Management Framework. Of that number, 7 (18.4%) were assessed as Red status, 12 (31.6%) as Amber and 19 (50%) assessed as Green. 20 new risks were added to the register during Quarter 1 in light of the Covid-19 pandemic and given a prefix of "CV" to differentiate them from the other Corporate Risks (CR). No new Corporate Opportunities were added to the register during the quarter and no Corporate Risks or Corporate Opportunities were removed during the quarter.

A member asked if there was any alignment between the CV and CR risks on the register and if there was any overlap between the two categories which could be shown in future reports. The Chief Officer – Governance & Monitoring Officer stated that there would be some financial impact from the CV risks and suggested that it would be useful to cross-reference the CV and CR risks where they might impact on each other. It was also suggested that CV 11 (Illness, self-isolation and other factors lead to loss of capacity to operate services and recruit staff) should include a reference to Covid-19.

RESOLVED:

That the report be noted and that CV (Covid-19 risks) and CR (Corporate Risks) be cross-referenced where they impact on each other.

VERBAL UPDATE ON THE 2019/20 ACCOUNTS

M. Surridge, of Mazars – External Auditors, gave a verbal update on the Council's accounts for 2019/20, as detailed below.

"Progress to date

We agreed dates to complete the audit fieldwork during July / August and our work has progressed well. Covid19 has created challenges to our ability to work efficiently, but management have been both supportive and cooperative as our work has progressed.

Two key areas have had a direct impact on our work. These are consistent with all local authorities.

**Key Matter: Valuation of land and buildings, investment properties (where applicable) and assets held for sale (where material)**

The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's Property, Plant and Equipment that is held at a valuation. The Council uses an internal valuation expert to provide information on valuations because there is a high degree of estimation uncertainty caused by significant judgements and number of variables involved in providing valuations. We therefore identified the valuation of material balances of land and buildings, investment properties (if applicable or material) and assets held for sale (if material) to be an area of significant audit risk.

At the outset of the Covid19 outbreak, guidance issued by the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is 'material valuation uncertainty' relating to the valuation of land and buildings at the balance sheet date because:

- Given the unknown future impact that COVID-19 might have on the real estate market, as at 31 March 2020, there is less certainty on previous market evidence for comparison purposes to inform opinions of value. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon. Rather, the declaration is included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation.

The Council's valuer has included a statement of 'material valuation uncertainty' in their valuation of the Council's assets as at 31 March 2020 and we have considered this as part of our testing approach. We have requested the Council ensure this is disclosed in the financial statements to inform any reader of the accounts. We are considering the impact to our Audit Report, which we expect will lead to an 'emphasis of matters' paragraph to draw attention to the relevant disclosure note in the financial statements. This would not be a modification to the audit opinion and this approach is consistent with all local authority audits.

**Key Matter: Valuation of net defined benefit liability**

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions.

We are unable to complete our work until we receive appropriate assurances from the auditor of the Leicestershire Local Government Pension Fund, expected at the end of October / early November.

Without these assurances, we cannot conclude our work, creating some risk to meeting the audit reporting deadline of 30 November.

These assurances will also inform us of any concerns relating to the valuation of pension fund assets, which may be subject to the same 'material valuation uncertainty' as impacts the Council's own land and buildings. We will need to consider the impact of this before issuing our opinion."

A member stated that the most significant area in terms of material adjustment is the Pension Fund and the figures were awaited with some apprehension. Also, the member was uncomfortable regarding a non-material but near material property valuation increase at a time when many other property valuations had moved in the opposite direction. Mr SurrIDGE stated that he would generically about investment properties in the context of the East Midlands. Valuation methodology is complex. The position could be very different to that on 31 March 2020. One of the things under consideration is not just what has happened in the past but what is going to happen moving forward. The investment market has created a lot more uncertainty and there is a greater degree of risk for investment properties for organisations because of Covid-19 and the financial situation and this enhanced risk should be reflected in future strategies.

It was agreed that a copy of Mr SurrIDGE's report be sent to all Council members and that a definition of the "words "material value uncertainty" be provided to members.

It was AGREED that the report be noted, with the actions requested in the preamble above.

#### ANY URGENT BUSINESS

There was none.

The meeting closed at 7.07 p.m.