

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

Present:

Councillor Galley (in the Chair)

Councillors

Burdess	Hugo	Roberts
Critchley	Mitchell	D Scott

Ms Brown Independent member

In Attendance:

Mr Neil Jack, Chief Executive
Mrs Tracy Greenhalgh, Head of Audit and Risk
Mr Adam McKnight, Senior Accountant
Mr Phil Redmond, Chief Accountant
Mr Steve Thompson, Director of Resources
Ms Karen Tomlinson, Senior Accountant
Mr Mark Towers, Director of Governance and Partnerships
Mrs Elaine Ireland, Senior Democratic Governance Adviser

Mr Nick Rayner, Deloitte
Ms Nicola Wright, Deloitte
Councillor Mrs Callow JP, Chair of the Scrutiny Leadership Board

1 DECLARATIONS OF INTEREST

Councillor Burdess declared a personal interest in relation to agenda items 3 'Strategic Risk Register 2021/2022', 6 'External Auditor's Report to Those Charged with Governance (ISA 260) and Statement of Accounts' and 7 'Internal Audit Plan 2021/2022' due to her position as Council appointed Non-Executive Director on the Blackpool Transport Services Limited Board. She further advised that should the financial details relating to the company be discussed in detail within these items, she would declare a prejudicial interest and leave the meeting for the duration of such discussions.

Councillor Roberts declared a personal interest in relation to agenda items 3 'Strategic Risk Register 2021/2022', 6 'External Auditor's Report to Those Charged with Governance (ISA 260) and Statement of Accounts' and 7 'Internal Audit Plan 2021/2022' due to his position as Council appointed Non-Executive Director on the Blackpool Airport Operations Limited Board. He further advised that should the financial details relating to the company be discussed in detail within these items, he would declare a prejudicial interest and leave the meeting for the duration of such discussions.

Councillor Galley declared a personal interest in relation to agenda items 3 'Strategic Risk Register 2021/2022', 6 'External Auditor's Report to Those Charged with Governance (ISA

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

260) and Statement of Accounts' and 7 'Internal Audit Plan 2021/2022' due to his position as Council appointed Non-Executive Director on the Blackpool Transport Services Limited Board and the Blackpool Entertainment Company Limited Board. He further advised that should the financial details relating to these companies be discussed in detail within these items, he would declare a prejudicial interest and leave the meeting for the duration of such discussions.

2 MINUTES OF THE LAST MEETING HELD ON 21 JANUARY 2021

The Committee agreed that the minutes of the meeting held on 21 January 2021 be signed by the Chairman as a true and correct record.

3 STRATEGIC RISK REGISTER 2021/2022

Mrs Tracy Greenhalgh, Head of Audit and Risk presented the Committee with the revised Strategic Risk Register for 2021/2022. She reported that in conjunction with the Corporate Risk Management Group and Corporate Leadership Team, the Strategic Risk Register (SRR) had been updated for 2021/2022, advising that the risks and sub-risks had largely remained unchanged but that a new sub-risk had been added to the risk 'Sustainability of the Council' to monitor the financial sustainability of the Council's wholly owned companies. Mrs Greenhalgh noted that included within the SRR were details of the Council's proposed actions in order to mitigate the risks of the Covid-19 pandemic.

Following approval of the Strategic Risk Register, Mrs Greenhalgh advised of the proposal for the Audit Committee to continue to receive periodic updates from relevant Risk Owners in order for them to provide an update in terms of how each risk was being managed. The proposed timetable for deep dives into specific risks by the Audit Committee had been included for approval.

The Committee sought clarification around why the sustainability of the Council's wholly owned companies had been added as a sub-risk and questioned whether any further risks had also been added to the Strategic Risk Register which the Audit Committee should be aware of. Mrs Greenhalgh advised that due to the impact of the pandemic on a number of the Council's companies, the decision had been taken to add the sub-risk to the SRR in order to oversee the financial recovery plans of each of the affected companies. She confirmed that no further new risks had been added to the SRR but that a number of the actions had been updated to reflect the proposed work to be undertaken over the new financial year.

In response to a question over the direct impact of Covid-19 on any of the risks highlighted within the Strategic Risk Register, Mrs Greenhalgh reported that the pandemic would be evident as a recurring theme throughout the SRR and was a key issue running through many of the identified risks.

Resolved: To note the Strategic Risk Register 2021/2022 and to approve the timetable of deep dives.

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

4 ANNUAL GOVERNANCE STATEMENT HALF-YEAR REVIEW

Mr Mark Towers, Director of Governance and Partnerships presented the Annual Governance Statement 2019/2020 half year review, noting that as the Annual Governance Statement (AGS) had only been approved by the Committee in November 2020 due to the delay in the approval of the annual accounts, the update represented only a part-year overview of progress. The Committee considered the updated action plan and questioned whether a lessons learnt exercise would be carried out with the Friends Group regarding the findings of the parks and green space improvement survey. Mr Towers reported that the Director of Community and Environmental Services had advised that there would be a meeting with representatives of a number of 'Friends' groups the following week in order to review the lessons learnt and the work undertaken at Anchorsholme Park, with the intention of sharing the improvement survey which had been trialled at Anchorsholme Park more widely.

In response to a question asking how the pandemic had impacted the Annual Governance Statement, Mr Towers advised that due to the effects of Covid-19 the AGS had been presented later than usual to the Audit Committee, with the introduction of links to live documents providing a more evidenced transparent approach and, due to the shorter timescale, a more tightly focused action plan with key actions being identified and achieved.

The Committee questioned whether any lessons learnt would impact future Annual Governance Statements going forward. Mr Towers confirmed this to be the case, citing an online AGS workshop which had been held with Members and which had proven to be a successful format for the event with good attendance and high levels of input. In addition, Mr Towers noted the intention to add further links within the AGS to live documents as useful examples of supporting evidence.

Resolved: To note the Annual Governance Statement half-year review and action plan.

5 RISK SERVICES QUARTER THREE REPORT

Mrs Tracy Greenhalgh, Head of Audit and Risk presented a report summarising the work of Risk Services, including the overall assurance statements for all audit reviews completed in quarter three. She drew the Committee's attention to the inclusion of the findings of the Chartered Institute of Internal Auditors' Risk in Focus report for 2021 which had horizon scanned for emerging key risks to be considered as part of the internal audit planning and risk assessment process. In addition, Mrs Greenhalgh had included the results from the recently completed National Fraud Initiative 2020, along with a comparison of findings from the same exercise undertaken two years previously, which she advised provided a good indication of fraud risks in the public sector.

In presenting the Risk Services key performance indicators, Mrs Greenhalgh noted the positive increase in fraud awareness training undertaken by the Communication and Regeneration Directorate and by Children's Services.

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

The Committee sought assurance around performance in relation to the completion of the internal audit plan, noting only 47 per cent had been reported as being completed of the 90 per cent annual target. Mrs Greenhalgh reported that due to the continued efforts of the Risk Services team, 78 per cent of the internal audit plan had now been completed. She assured the Committee that in any cases whereby planned audits had not been undertaken within the current year, all would be carried forward on to the new internal audit plan for the following year.

The Committee noted the reported completion rate of the percentage of property risk audits completed as zero and sought further information in relation to the performance indicator. Mrs Greenhalgh reported that the property risk audits were undertaken externally by Zurich Municipal and that they had been unable to carry out work onsite due to Covid-19 restrictions. She informed the Committee that Zurich Municipal had advised that they would be recommencing site visits from mid-April 2021 with the intention of catching up on the number of property risk audits completed over the next few months.

With regards to the reported fraud statistics data, the Committee questioned whether the data included and recognised the activities of the informal economy or if there were any plans to start including such data. Mrs Greenhalgh confirmed that the National Fraud Initiative findings did not include any data relating to the informal economy due to its 'cash in hand' nature and which therefore would not be captured within the systems used to undertake data matching. She advised that other sources of information were relied upon with regards to capturing data generated by the informal economy, such as referrals from colleagues across the Council and from members of the public via the Council's online facility for reporting concerns. Any such referrals would be investigated and recorded and would be included within the Blackpool data reported to the Committee. The Committee noted the importance of identifying and recognising the size and impact of the informal economy, as well as the need to create a strategy to deal with it going forward.

Clarification was sought around the number of risk and resilience training exercises undertaken, with none of the proposed six sessions as yet having taken place. Mrs Greenhalgh advised that the majority of the Council's risk and resilience training was provided externally and that the recent focus for the sessions had been on providing necessary training to the Council's wholly owned companies to ensure effective risk management processes were in place. Mrs Greenhalgh identified a further provider of training as the Lancashire Resilience Forum who had been focused more recently on the response to the pandemic, but she reported that one training exercise had taken place the previous week which would be reported as part of the quarter four data. In addition, Mrs Greenhalgh outlined the online courses available via the Council's I-Pool learning facility, with one live course on Risk Management currently being available and a further course on Business Continuity awaiting launch.

On considering the summary of internal audits undertaken during quarter three, Mrs Greenhalgh noted a positive overall picture, with the exception of the review of vehicle operators' licence compliance within the Community and Environmental Services Directorate which had received inadequate assurance and had resulted in a total of 12 recommendations, one being Priority One and nine being Priority Two. The Committee

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

requested that the Transport Manager be invited to attend a future meeting of the Audit Committee in order to provide an update on progress in relation to the recommendations. In addition, the Committee noted that within the 2019/2020 accounts included for consideration at the meeting, a section on variances within Children's Services had reported a £739,000 overspend due to a historical, unmet target saving on the Special Educational Needs transport Service, with part of this overspend having been offset by staffing savings and the release of one-off funding in other areas of the service. The Committee questioned whether these actions to save on staff costs had impacted negatively on the ability of the Transport Service to comply with Vehicle Operators' Licence requirements and whether an impact assessment had been undertaken before the cost savings had been implemented. Mr Neil Jack, Chief Executive confirmed this not to be case, informing the Committee that the number of new pupils eligible for transport had been impacted not the management of the transport service and that this was managed by the Special Educational Needs and Disability Service.

With regards to the review of the Business Loans Fund, the Committee questioned what the anticipated impact of the resulting recommendations would be. Mrs Greenhalgh advised that whilst the Business Loans Fund had demonstrated robust processes to be in place for due diligence, the audit had highlighted a lack of an equally robust audit trail to adequately reflect this. The recommendations therefore were aimed at helping the service work towards a clearer recording of processes undertaken.

Resolved:

1. To note the Risk Services quarter three report;
2. That the Transport Manager be invited to attend a future meeting of the Audit Committee in order to provide an update on progress in relation to the recommendations arising from the review of vehicle operators' licence compliance.

6 EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) AND STATEMENT OF ACCOUNTS 2019/2020

Councillor Galley, Chair asked the Committee to consider how the external auditors, within their report, had identified and evidenced that the Council was a sustainable organisation. In order to reflect fully on the information contained within the external auditor's report and the Statement of Accounts, Councillor Galley suggested that the Committee consider them in four parts:

- Summary of the risk and assurance elements as identified within the Statement of Accounts;
- Discussion around the external auditor's issues surrounding Blackpool Transport Services Limited;
- Consideration of the external auditor's update regarding the ISA 260 and identification of any outstanding issues before deciding whether the Committee was in a position to approve the Statement of Accounts;
- Discussion of the future working relationship with the external auditors.

Mr Steve Thompson, Director of Resources provided a summary of the chronology of the audit of accounts, noting that closure of the accounts for 2019/2020 had been achieved by

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

31 May 2020, with a provisional outturn being reported to the Executive on 15 June 2020. Mr Thompson informed the Committee that the provisional outturn had showed a loss of £5.8 million which had since been confirmed within the Statement of Accounts being considered by the Committee. He reminded the Committee that the Statement of Accounts provided a snapshot as captured on 31 March 2020, but noted that the Covid-19 pandemic had impacted upon the accounts particularly across areas focused upon by the external auditors, with those being around valuations of property, plant and equipment as well as of the pension fund. Mr Thompson noted that the primary focus over the year had been on addressing the consequences of Covid-19 as well as overseeing the financial management of the Council and of ensuring the financial sustainability of its wholly owned companies. He reported that the Council had identified a budget-saving target of £14 million during 2020/2021 and was on target to successfully achieve this.

The Committee was informed that the negative financial impact of the pandemic on other Councils via losses experienced by their wholly owned companies had been identified early on in the Covid-19 response and as a result the decision had been taken to consolidate the position of Blackpool's wholly owned companies within the Council's financial monitoring at an early stage. With regards to the future sustainability of the Council, Mr Thompson asserted that it was difficult to ascertain sustainability based purely on one year and that it was more useful instead to consider trends over a longer period of time, but reported that overall the Council's levels of reserves remained within the mid-division with the working balances forecast at £11.4 million and earmarked reserves at a minimum of £21.4 million. With reference to the reported balance sheet, Mr Thompson highlighted to Committee Members that the net value of the Council stood at approximately £244 million.

Mr Thompson noted the growing systemic failings of local government finance, as evidenced by the nine local authorities facing budget deficits and seeking capitalisation directives from the government, but noted that many other elements needed to be considered in addition to the Council's accounts in order to measure financial sustainability, such as the monitoring systems in place, the quality of the finance function within the authority and the levels of training and development for both officers and elected Members. Mr Thompson made reference to previous provisions of four year local government financial settlements which had more recently been replaced by one year settlements that had also being confirmed later in the year, creating an element of uncertainty around long term financial planning.

With regards to the balance sheet, the Committee questioned whether reported movements in investments and borrowing had been consistent with the Council's treasury management policy. Mr Thompson advised that the balance sheet demonstrated very little movement over the year with regards to investments made via the treasury management system as investments would largely be recorded as regeneration acquisitions rather than cash investments. In relation to borrowing, he confirmed that as reported via the Financial Resilience Index, the Council was in the mid-division in terms of levels of borrowing.

The Committee questioned whether the levels of useable reserves were robust enough to deliver the Council's future policies and to provide resilience for anticipated future reductions in funding. Mr Thompson advised that the Council's useable reserves would be

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

split between revenue and capital, with capital reserves only being available for capital expenditure. With regards to revenue reserves, a target for working balances had been set at £6 million to provide a sufficient buffer for any in-year funding volatilities.

The Audit Committee extended its thanks to Mr Thompson and the whole of the finance team for all the hard work they had undertaken, both during and prior to the Covid-19 pandemic.

The Committee then went on to consider the external auditor's ISA 260 report and in particular with regard to Blackpool Transport Services Limited. Councillors Galley and Burdess both declared a prejudicial interest in relation to the reference to Blackpool Transport Services Limited within this report and as such left the meeting at this juncture for the duration of the discussion. Councillor Critchley as Vice-Chair took the Chair.

Ms Nicola Wright, Audit and Assurance Partner, Deloitte referred the Committee to page 288 within the external auditor's report which commented on the valuation of Blackpool Transport Services Limited (BTS). She informed the Committee that the Council had engaged a third party external valuer to provide valuations for the Council's subsidiary companies for inclusion within the balance sheet. Further to this, Deloitte had engaged an internal specialist to challenge three of the valuations as included by the Council. Two of the valuations fell within the accepted range as identified by Deloitte, but for the valuation of BTS, Deloitte's team challenged the methodology used to reach their figure and as such the valuation fell outside their accepted range. As a result, Deloitte had proposed an adjustment to the financial statement to reflect the reduced valuation of BTS, but Ms Wright highlighted to the Committee that the figure was not sufficiently significant to be imposed on the accounts but instead could be reported as an adjusted item with no change necessary to the balance sheet. Following consideration of the valuation figures and variances by the Committee, Ms Wright confirmed that the proposed adjustment represented no material consequences to the Statement of Accounts or any threat to the future sustainability of the Council and as such was happy for the Council's valuation figure to remain within the accounts as the adjustment had been brought to the Audit Committee's attention.

The Committee sought Mr Thompson's opinion of the adjustment. He advised that professional independent valuers had been commissioned by the Council and as such he trusted the valuation as included within the accounts.

[Councillor Galley rejoined the meeting and resumed the position of Chair.]

Ms Wright provided a summarised overview of the external auditor's report, highlighting that work had focused on ensuring that the financial statement was as complete as possible, working with the finance team on a number of required adjustments. She reported that Deloitte were now happy that the accounts were materially correct, but reported that version checks on the notes attached to the final report were still required in order to ensure these had all been updated correctly. With regards to the capital accounting adjustments within the accounts, Ms Wright highlighted a recommendation regarding review processes and the finance team's capacity to undertake all the necessary elements to ensure completion of the accounts for the following year.

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

In relation to the Significant Risks as outlined within the report, Ms Wright summarised Risk 1 'Completeness of Accrued Expenditure' and assured the Committee that following testing of controls, no material amendments to the accounts had been identified. With regards to Risk 2 'Property Valuations: Material Uncertainty due to Covid-19' she drew Members' attention to the inclusion of an 'emphasis of matter' within the audit opinion due to uncertainty over the valuation of the property portfolio as a result of the impact of the Covid-19 pandemic. Ms Wright summarised Risk 3 'Pension Liabilities', highlighting that the pension assets and liabilities as included within the financial statements had required assurance from the pension fund auditors, who had included an 'emphasis of matter' in their audit opinion but that Deloitte did not consider it necessary to include an 'emphasis of matter' within their audit report and had no further matters to report around pension liabilities. The final significant risk had been identified as 'Management Override of Controls' and Ms Wright reported that following testing, no significant issues had been identified in relation to the risk area.

[Councillor Burdess rejoined the meeting.]

Ms Wright highlighted other areas of focus from the audit, which included long term debtors and investments in subsidiaries. In relation to the Value for Money (VfM) risks identified by the audit, she reported that due to the 'Inadequate' Ofsted rating issued to Children's Services in January 2019, Deloitte still considered there to be a significant VfM risk in relation to Children's Services for 2019/2020 around the delivery of the improvements required as a result of the Ofsted report.

The Committee sought clarification that there were no outstanding issues which would have a material impact on the Statement of Accounts. Ms Wright confirmed that she had no expectation that there would be any material changes to the Statement of Accounts as presented.

The Committee noted a forecast gap of £7.9 million and questioned whether this represented any threat to the Council's financial sustainability. Ms Wright reported that reviewing the Council's management of the gap was of more concern to the external auditors and that in this case it had not been considered significant enough to affect the VfM opinion.

With regards to future statutory deadlines and anticipated changes resulting from the Redmond Review, the Chair proposed that a meeting be held with Ms Wright and Mr Rayner from Deloitte, Mrs Greenhalgh, the Chair and Vice-Chair of the Audit Committee and the Director of Resources in order to discuss future working relationships going forward.

Resolved:

1. To note the External Auditor's Report to those charged with Governance (ISA 260) for 2019/2020;
2. To approve the Statement of Accounts for 2019/2020 subject to no material changes resulting from the outstanding work still to be completed. Should any material change become apparent, the Committee would defer the agreement of the

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

accounts to the next meeting of the Audit Committee on 29 April 2021;

3. That a meeting be held with Ms Wright and Mr Rayner from Deloitte, Mrs Greenhalgh, the Chair and Vice-Chair of the Audit Committee and the Director of Resources in order to discuss future working relationships going forward.

7 INTERNAL AUDIT ANNUAL PLAN 2021/2022

Mrs Tracy Greenhalgh, Head of Audit and Risk presented the Internal Audit Plan for 2021/2022 for consideration and approval. Mrs Greenhalgh explained the process used to create the annual plan, informing the Committee that an audit universe was in place which listed all Council services and an exercise had been undertaken by the internal audit team to risk assess each service using a weighted criteria including materiality, system stability, devolved control, internal control and sensitivity. Consultation with each Directorate Management Team had been undertaken in order to present internal audit's priorities and establish what Heads of Service considered to be risks faced by their service areas. She also highlighted that any planned audit work which had not been completed this year had been included on the plan for next year.

The Committee referenced two risk areas as identified within the Chartered Institute of Internal Auditors' report 'Risk in Focus 2021' as information security for those working from home and fraud and exploitation of operational/economic disruption as a result of the pandemic. Clarification was sought on whether these risk areas had been incorporated into the internal audit plan for the following financial year. Mrs Greenhalgh reported that an audit of cyber security had been included within the plan, in addition the Information Commissioner's Office was scheduled to undertake a consensual audit of data protection, freedom of information and data security in April 2021. With regards to the implementation of home working, Mrs Greenhalgh informed the Committee that a review had not been included within the plan at this stage, but she was undertaking an advisory role within the Risk Services Recovery Group which would be focusing on hybrid working methods and the risks surrounding these. She advised that a post-implementation review might be scheduled for a future date if considered necessary.

In terms of fraud exploitation of operational and economic disruption, Mrs Greenhalgh advised that the planned work around fraud would be considered as part of the Fraud Prevention Charter later on the agenda.

Resolved: To approve the Internal Audit Plan for 2021/2022.

8 FRAUD PREVENTION CHARTER 2021/2022

Mrs Tracy Greenhalgh, Head of Audit and Risk presented the Fraud Prevention Charter 2021/2022 for consideration and approval. She explained that the Charter set out the Council's Anti-Fraud and Corruption Statement which outlined the Council's zero tolerance approach when dealing with fraud, corruption and bribery. It also outlined the fraud risk assessment and associated counter fraud programme which was based on best practice guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) to ensure that emerging threats were considered and priority fraud risks remained the focus. Key

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

actions had also been identified from the fraud risk assessments and included within the proactive anti-fraud action plan.

The Committee questioned whether the Covid-19 pandemic had impacted the charter, with Mrs Greenhalgh advising that a large impact had been felt within the fraud team in particular in relation to pre and post assurance checking of business support grants, with much of the team's resource being focused in that area. As a result, not all areas of proactive work had been completed from the previous year's action plan. Live investigations had also been impacted, with interviews under caution not taking place due to the need to conform to social distancing regulations, which had not been possible within the Council's interview rooms. Mrs Greenhalgh advised that a reduced number of items had been included within the action plan due to the anticipated continuation of an increase of demand on the team over the new financial year.

Information was sought by Committee Members on the development of a communications strategy as included within the Fraud Prevention Charter. Mrs Greenhalgh reported the identification of the need to improve links with the Council's communications team with regards to raising public awareness of successful fraud prosecutions and as such the development of a communications strategy had been highlighted as an action. The Committee asked what the anticipated impact of the communications strategy would be over the following 12 months and how success would be evidenced. Mrs Greenhalgh suggested that further discussions were required with the communications team in order to determine what was achievable, which included consideration of the improvement of joint working with external partner agencies to potentially increase prosecution success rates, which would then contribute to the rate of reportable positive outcomes and deterrent publicity. The Committee agreed to revisit the communications strategy after a period of four months to receive an update on progress.

Resolved: To approve the Fraud Prevention Charter 2021/2022.

9 AUDIT COMMITTEE ACTION TRACKER

Members considered the action tracker which had been developed to assist the Committee in effectively ensuring that all recommendations made were acted upon. The tracker would be considered by the Committee at each meeting going forward.

Resolved: To note the Audit Committee Action Tracker.

10 DATE OF NEXT MEETING

The date of the next meeting of the Committee was noted as 29 April 2021, commencing at 6pm.

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 25 MARCH 2021

Chairman

(The meeting ended at 7.40pm)

Any queries regarding these minutes, please contact:
Elaine Ireland, Senior Democratic Governance Adviser
Tel: 01253 477255
E-mail: elaine.ireland@blackpool.gov.uk