

AUDIT AND STANDARDS COMMITTEE

28 September 2020

Minutes of the Audit and Standards Committee meeting held remotely on Monday 28 September 2020 at 6.30pm.

Committee Members present: Councillors A.K. Jeeawon (Chairman), J. Barnes, Mrs M.L. Barnes, Mrs E.M. Kirby-Green, C.A. Madeley, Rev H.J. Norton and R.B. Thomas.

Other Members present: Councillors B.J. Drayson.

Advisory Officers in attendance: Chief Executive, Assistant Director Resources, Audit Manager and Democratic Services Officer.

Also Present: Darren Wells, Grant Thornton and 12 members of the public, via the YouTube live broadcast.

AS20/19. **MINUTES**

The Chairman was authorised to sign the Minutes, at a later date, of the meeting of the Audit and Standards Committee held on 29 July 2020 as a correct record of the proceedings.

AS20/20. **APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor K.M. Harmer.

AS20/21. **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

AS20/22. **REPORT OF THE EXTERNAL AUDITOR - AUDIT PROGRESS REPORT AND SECTOR UPDATE, YEAR ENDING 31 MARCH 2020**

Darren Wells from Grant Thornton led Members through the report of the External Auditor on the progress in delivering their responsibilities to the Council, in addition to a summary of emerging national issues and developments relevant to the Council.

The following points were highlighted for Members' attention:

- the Council's draft financial statements were published on 3 July 2020 and Grant Thornton's year end accounts audit commenced in August 2020 and was currently in progress. The Audit Findings Report would be presented to the November 2020 Audit and Standards Committee meeting;
- the scope of the auditor's value for money work was set out in the guidance issued by the National Audit Office. The guidance

detailed three sub-criteria which auditors would consider when arriving at their overall conclusion;

- the Redmond Review on local authority audit had been published on 8 September 2020, which detailed a number of recommendations, including extending the deadline for publishing audited accounts from 31 July to 30 September each year and the simplification of accounting statements; and
- understanding the best, worst and optimum case scenarios from the impact of the COVID-19 pandemic were critical in strategic discussions when setting the following year's budget and updating the Medium Term Financial Plan. In addition, understanding other global, national and local issues, including the impact of a no deal Brexit trade deal and new government policies such as devolution and health and social care integration.

RESOLVED: That the report be noted.

AS20/23. **INTERNAL AUDIT REPORT TO 30 JUNE 2020**

The Audit Manager led Members through the internal audit report to 30 June 2020 that gave details of audit matters and any emerging issues, not only in relation to audit but risk management and corporate governance.

Internal Audit resources had been adversely affected at the outset of the coronavirus crisis and the audit team had continued to experience operational difficulties even when it was back to full strength because it was no longer able to undertake routine audits. Consequently, no audit reports were issued in the first quarter and Internal Audit spent most of its time on counter fraud work instead. This counter fraud work had identified confirmed savings of more than £13,000 and highlighted many other cases which were still under investigation. The Audit Manager had since devised a new approach to audit work in response to the challenges posed by the COVID-19 pandemic.

Work on the Audit Plan for the second quarter of 2020/21 was progressing well with much of the priority audits/consultancy work listed in it already completed. Full details on the work carried out would be reported in the next quarter in the Internal Audit Report to 30 September 2020.

Appendix A to the report updated Members on the progress made on implementing the audit recommendations reported at the previous meetings. Some progress had been made to implement the recommendations made in 2019/20, but there had been a definite slowdown in recent months, most probably due to the impact of the coronavirus crisis.

The number of older recommendations outstanding still stood at 11 and had not altered since March 2020. Other priorities, including the need to respond to the COVID-19 pandemic, had played a part in the delay. Managers with long outstanding recommendations had been asked to report to the Strategic Management Team (SMT) stating what actions

they intended to take to resolve the matters raised. SMT would consider the risks of inaction and whether this was something the Council was prepared to accept. A full report would be made to Members at the next meeting of the Committee on the status of the outstanding recommendations.

Members had previously expressed concern about some of the issues found at the first Property Investment review and Appendix B to the report provided a progress update on the action taken to implement the audit recommendations. Five out of eight recommendations had so far been implemented and progress had been made in all but one of the remaining cases.

RESOLVED: That the Internal Audit report to 30 June 2020 be noted.

AS20/24. **INTERNAL AUDIT PLAN UPDATE**

Members received the report of the Audit Manager which gave details of the Internal Audit Plan for 2020/21 Quarter 3 for Members' approval.

The audit planning process had been disrupted by the COVID-19 pandemic and the work plan originally proposed for 2020/21 had been abandoned.

The Public Sector Internal Audit Standards required that the Audit Manager communicated the plan and resource requirements, including significant interim changes, to senior management and the Audit and Standards Committee for review and approval. For the current year, this would be done via quarterly Internal Audit Plan updates. A new, more flexible approach was required to cope with the current unprecedented circumstances and to encourage greater management engagement.

No changes had been made to the Audit Plan for the second quarter of 2020/21 and good progress was being made to deliver it.

The Audit Plan for the third quarter of 2020/21 was attached at Appendix A to the report. The Plan set out Internal Audit's work programme to obtain assurance on the Council's control environment. An Indicative Plan for the following six month period had also been produced to show what other audit work was likely to take place from 1 January 2021 onwards, which was attached at Appendix B to the report.

Quarter 3 would see the start of the Governance audits, which covered many of the key systems upon which the annual Internal Audit opinion was based. Reporting in these areas would not solely focus on COVID-19 risks, however some aspects of the normal Governance audit coverage may need to change or be omitted altogether due to the logistical challenges faced by the COVID-19 secure working environments. Time allocations had also been re-introduced for Quarter 3 to help monitor progress and ensure the audits were completed within a reasonable timeframe.

Members were advised that the plans would need to be kept under review by the Audit Manager and may need to change at short notice if new risks emerged. Any changes would be reported to the Audit and Standards Committee.

RESOLVED: That the Internal Audit Plan for 2020/21 (Quarter 3) be approved.

AS20/25. **TREASURY MANAGEMENT UPDATE**

Council approved the Council's 2020/21 Investment Strategy in February 2020 (Minute CB19/93 refers). The Investment Strategy required regular reports to be presented to this Committee on the Council's treasury management activities. Members were also reminded that investment activity was also reported through the Members' Bulletin. In managing its treasury management activities, the Council followed the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The report provided an update on a number of areas as follows:

- The Council made its own investments through the use of call and deposit accounts with major financial UK institutions. It also held investments totalling £8 million in Property Funds (£5 million in the Churches, Charities, Local Authorities' (CCLA) Property Investment Fund and £3 million into the HERMES Property Investment Fund).
- The Council held £33.754m of investments at 30 June 2020. The total income from investments was forecast at £252,000, a shortfall of "£148,000 against the annual budget. The largest returns were from the Council's property funds, which were delivering an average rate of return on investments of between 2.33% and 3.69%.
- There was £11,927,025 of borrowing at 30 June 2020 and the Capital Financing requirement was £12.126 million.
- The Council invested in the economic regeneration of Rother through its Property Investment Strategy (PIS) and Members were updated with the expected income from the non-Treasury Investments.
- The budget for rental income from all investment properties was £1,919,840. This was made up of £1,008,760 for the existing assets and £911,080 for the properties purchased through the PIS. During the pandemic lockdown, tenants were not pursued for rent arrears however, over the previous month, reminders had been sent.
- This equated to a 6.27% gross return on the value of all properties including those purchased under the PIS. After allowing for borrowing costs the expected return on the PIS properties was 2.71%.
- The Coronavirus pandemic continued to have a major impact on the global economy and was likely to do so for the foreseeable future. The UK economy was officially in recession having

- contracted by over 20% quarter on quarter, as predicted by the Council's Treasury Management advisors, LINK Asset Services.
- Brexit trade deal negotiations continued to be slow and unyielding as the prospect of a 'no-deal' scenario became increasingly likely.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. The investment environment for treasury activities remained difficult with absolute returns continuing to be low. The diversification into Property Funds had increased the net overall return but was less liquid and carried greater capital risk than other investments. The Council's PIS had regeneration at its heart and it was planned to generate returns of 2.7%. This came with greater risk due to the commitment to repaying borrowing and the direct operational risks of managing property.

RESOLVED: That the report be noted.

AS20/26. **RISK MANAGEMENT UPDATE**

Members received the report of the Executive Director updating the Committee on issues in Risk Management affecting the Council during 2020/21.

The year had been dominated by dealing with the impact of the COVID-19 pandemic both in terms of the Council's operations and the support given to the community and a number of risk management related lessons had been learnt that would help the Council in responding going forward, including:

- Sustainably meeting a long-term crisis - the Council's business continuity plans, along with policies, needed to be expanded and reviewed to reflect the changes in how the Council was currently working.
- Diversion of staff resources/expansion of role through government expectation/direction – in times of national crisis, the role of the Council was likely to expand.
- Supply chains – demand for certain products, such as ICT equipment and the right quality of PPE, was outstripping supply.
- Contractor resilience – business continuity plans were in place to deal with effectively, but at a cost to the Council.
- ICT – the role of ICT had been pivotal, from enabling staff to work from home, developing the website to enabling remote and on-line meetings throughout the pandemic. The work delivered had put the Council in a much stronger position to deal with any future crisis but would need to be maintained and updated.
- Flexible workforce – having a committed and flexible workforce was essential in order to respond to the crisis and Rother excelled at not only responding to the specific threats of COVID-19 but made use of its social media channels to promote messages relating to COVID-19.
- Members – an essential resource and conduit between the Council, residents and businesses.

The Corporate Risk Register was attached to the report at Appendix A and a number of items were brought to the attention of Members relating to the potential impact and mitigation to a pandemic. An officer team led by an Executive Director had been established to manage these risks and to co-ordinate the Council's response to the pandemic including liaison with the Sussex Resilience Forum which maintained oversight of all the Sussex Councils, health and emergency services activities.

Members noted that the measures the Council had put in place meant it would be in a strong position to maintain services including scaling up the community hub activities in the event that there was a resurgence of COVID-19 over the winter period as expected. This would however result in the Council's day to day business suffering further if staff resources needed to be redirected to other areas of work. It was not clear if further Government funding would be forthcoming to help support the Council.

Members raised concerns about emerging risks from expected planning legislative changes which were currently out for consultation; the Chief Executive designate confirmed that appropriate representations were being made on behalf of the Council.

Members and the Chief Executive designate praised officers for their response to the COVID-19 pandemic and noted the lessons learnt. The mental well-being of staff continuing to work remotely would need to be considered and one way of achieving this was the imminent introduction of a group of staff trained as Mental Health First Aiders.

RESOLVED: That the report be noted.

AS20/27. **WORK PROGRAMME**

Consideration was given to the Work Programme which contained details of the reports to be considered by the Audit and Standards Committee meetings until March 2021.

Members noted that the appointment of an Audit Independent Person had been delayed due to the COVID-19 pandemic but would be progressed in due course.

Members considered adding the review of Public Standards consultation for discussion to the Work Programme, details of which had been recently circulated by the Monitoring Officer. Due to the increased pressure officers were under at the current time, it was agreed that the Council would not be submitting a response and the item would therefore not be added to the Work Programme.

RESOLVED: That the Work Programme, attached at Appendix A, be agreed.

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WORK PROGRAMME 2020 – 2021	
DATE OF COMMITTEE	SUBJECT
Tuesday 24 November 2020	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Governance Report 2019/20 • Statement of Accounts 2019/20
Monday 7 December 2020	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring • Local Government Ombudsman Complaints Monitoring and Annual Review 2019-2020 • LGA Model Code of Conduct <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Audit Letter 2019-20 • Internal Audit Report to 30 September 2020 • Internal Audit Plan Update • Risk Management Update - TBC • Treasury Management Report
Monday 22 March 2021	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Audit Progress Report and Sector Update • Grant Thornton – External Audit Plan 2020-21 • Internal Audit Report to 31 December 2020 • Internal Audit Plan 2021-22 • Review of Internal Audit 2020-21 • Annual Governance Statement • Annual Property Investment Update • Treasury Management Update • Accounting Policies 2020-21 • Annual Risk Management Update
ITEMS FOR CONSIDERATION	
<ul style="list-style-type: none"> • Appointment of the Audit Independent Person – post recruitment process 	