

## AUDIT AND STANDARDS COMMITTEE

21 March 2022

Minutes of the Audit and Standards Committee meeting held at the Council Chamber, Town Hall, Bexhill-on-Sea on Monday 21 March 2022 at 6:30pm.

Committee Members present: Councillors A.K. Jeeawon (Chairman), J. Barnes, Mrs M.L. Barnes, P.C. Courtel, K.M. Harmer, Mrs E.M. Kirby-Green and C.A. Madeley.

Audit Independent Person: Mr Patrick Farmer.

Advisory Officers present: Deputy Chief Executive, Chief Finance Officer, Audit Manager and Democratic Services Officer.

Also present: 1 member of the public in the room and 6 members of the public via the live webcast.

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### AS21/1. **MINUTES**

The Audit Independent Person raised the issue of 'actions arising' from previous Minutes which were not currently within the procedures for formal Council meetings. Clarification was sought on when the report on the governance monitoring of the wholly owned Council Housing Company would be presented to the Committee; the item had been added to the Work Programme at the previous meeting for March, but it did not appear on the agenda. Members were advised that it had been moved to the June meeting, as officers were still working on the report. Members also requested an update on Recommendation 3 of Minute no AS21/41; a Risk Management Update appeared elsewhere on the agenda.

The Chairman was authorised to sign the Minutes of the meeting of the Audit and Standards Committee held on 6 December 2021 as a correct record of the proceedings.

### AS21/1. **APOLOGIES FOR ABSENCE**

There were no apologies for absence.

### AS21/1. **DISCLOSURE OF INTERESTS**

Declarations of interest were made by Councillors in the Minutes as indicated below:

Barnes, J     Agenda Item 11 – Personal interest as Vice-Chairman and Company Executive Director for the Council Housing Company.

## **PART A – STANDARDS REPORTS - NONE**

## **PART B – AUDIT REPORTS**

### **PART II – DECISIONS TAKEN UNDER DELEGATED POWERS**

#### **AS21/1. INTERNAL AUDIT REPORT TO 31 DECEMBER 2021**

The Audit Manager led Members through the internal audit report to 31 December 2021 that gave details of audit matters and any emerging issues, not only in relation to audit but risk management and corporate governance.

The Internal Audit Team was now back on target to complete the majority of work in the 2021/22 Audit Plan by 31 March 2022.

Five audit reports were issued in the quarter and an overview of the findings arising from each was given in the Executive Summaries in Appendix A to the report. All audits provided good or substantial assurance on those areas reviewed.

Appendix B to the report updated Members on the progress made on implementing the audit recommendations reported at the previous meetings. There had been some movement on the older year recommendations this quarter, however this included two recommendations which were closed, unresolved. Both related to technical issues with the Creditors system and the Chief Finance Officer had decided to accept the risk of taking no further action in both cases. Two other recommendations (ICT Network Security and ICT Governance) were almost complete and the third (Procurement) had recently been picked up by the Chief Finance Officer following the retirement of the Assistant Director Resources. The Chief Executive had been informed about progress on all long outstanding recommendations.

Members had the opportunity to ask questions and the following points were noted during the discussions:

- a performance bond had now been received for the Blackfriars spine road, but the signed contract for the architectural design was still outstanding and had been chased;
- Members acknowledged that the works at Blackfriars had been managed well, but raised concerns that the signed contract for the architectural design had still not been received and suggested a report be brought back to this Committee; and
- incorrect indices entered in the system for the calculation of the annual inflation uplift for the grounds maintenance contract related to this contract only.

Progress on the current year recommendations remained good, with over half now completed.

**RESOLVED:** That the Internal Audit report to 31 December 2021 be noted.

**REVIEW OF INTERNAL AUDIT 2021/22**

The Public Sector Internal Audit Standards (PSIAS) required the Council to conduct periodic self-assessments of the effectiveness of Internal Audit. The Council's Audit Manager considered it beneficial for this review to be carried out annually and for Members to review the findings prior to 31 March of the financial year to which it related, as approval ahead of the preparation of the Annual Governance Statement allowed documentation to place reliance on the effectiveness of Internal Audit.

The Public Sector Internal Audit Standards (the Standards) aimed to achieve consistent industry standards for Internal Audit and included a Quality Assurance and Improvement Programme which stipulated the need for both internal and external assessments.

The Audit Manager carried out an annual self-assessment review of the Internal Audit function using a comprehensive checklist; the results of the review for 2021/22 had been summarised and were appended to the report for Members' consideration. Members were able to see a full copy of the compliance report on request. It was noted that no areas of material non-compliance with the Standards had been found.

Members were reminded that an external peer review had been completed in 2016/17, arranged via the Sussex Audit Group. No significant issues were found and the Assessment Team concluded that the Council's internal audit service conformed to the PSIAS and general good practice for the profession. However, a further review was now overdue.

The most cost-effect method of completing this work was to enter into a similar reciprocal arrangement to that used last time. However, the Sussex Audit Group has not met since the COVID-19 pandemic first hit and it was unclear whether there would be any appetite for such an arrangement at the current time. The alternative would be to hire the services of an external provider to carry out the work and the Audit Manager would investigate the cost of engaging a suitable provider and report back on progress later in the year. Members were keen to ensure that an external peer review be carried out.

A progress update on the Action Plan from the previous year's review was also provided in Appendix B; this showed that action had now been taken on all of the points raised.

Only one new issue had been highlighted by the latest internal assessment and all three action points from last year's review had now been addressed. The results of the assessment and earlier peer review demonstrated that the Council's Internal Audit Service continued to achieve a good level of compliance with the Standards and none of the areas of partial compliance were significant in nature. The Audit Manager concluded that there was a high level of effectiveness overall.

**RESOLVED:** That the Review of Internal Audit 2021/22 be approved.

Consideration was given to the report of the Audit Manager on the Internal Audit Plan for 2022/23 (IAP). The Standards required that the Audit Manager communicated the IAP and resource requirements, including significant interim changes, to senior management and the Audit and Standards Committee (A&SC) for review and approval.

Attached at Appendix A to the report was the assurance map which provided a visual representation of the various sources of assurance received by an organisation on its management of strategic risks. The assurance map was last reported to the A&SC in March 2021 and updated for the current position. The assessment methodology was set out in Appendix B to the report.

Only one area (Risk Management) was identified as medium risk, which would ordinarily have led to its inclusion in the forthcoming Audit Plan. However, in view of the improvements proposed in the Risk Management Update (featured elsewhere on the agenda), it had been deferred until 2023/24 to allow time for the changes to be implemented. All activities assessed to be high risk were included in the new IAP.

The IAP set out the work programme to obtain assurance on the Council's control environment. It had been agreed by this A&SC at its December 2021 meeting that the three-year strategic audit plan would be replaced by standalone annual audit plans; the Audit Plan for 2022/23 was attached at Appendix C to the report. Other medium risk areas that were considered when compiling the new plan, but not included in the final version, were listed in Appendix D to the report for information.

The IAP had been compiled by the Audit Manager in accordance with the Internal Audit Charter 2022 and was supported by the Corporate Management Team (CMT). The IAP allowed for 532 days of audit work on 22 separate audit reviews / consultancy activities, plus provisions for counter fraud work. A significant portion of the Plan was devoted to Governance Audit work, owing to the importance of the assurance these audits provided.

The resources of the Strategic Audit Plan (2022/23) were shown in Appendix E to the report, which demonstrated that it would be possible to meet the total resource requirement of the plan with existing staff resources.

Progress against the IAP would be monitored by the Audit Manager and reported to the A&SC once a quarter. The content of the IAP would also be kept under review by the Audit Manager in liaison with the CMT, and adjusted if required, to ensure that it continued to reflect the Council's needs and priorities.

The IAP needed to provide sufficient coverage to meet the Council's statutory duty.

The existing Internal Audit Charter was last revised in May 2020 and needed to be updated in light of organisational changes and the move away from a three-year strategic audit plan. A revised Internal Audit Charter was provided in Appendix F to the report for Members' consideration and approval.

Members were pleased to approve the IAP and Internal Audit Charter and thanked the Audit Manager for his work.

**RESOLVED:** That:

- 1) the Internal Audit Plan 2022/23 be approved; and
- 2) the revised Internal Audit Charter in Appendix F be approved.

#### AS21/1. **RISK MANAGEMENT UPDATE**

Consideration was given to the report of the Audit Manager that provided an update for Members on Risk Management processes and the key strategic risks currently facing the Council. It was essential that the Council adopted a strong approach to Risk Management as it emerged from the COVID-19 pandemic, especially given the current backdrop of significant financial pressures.

The Council had a simple overarching Risk Management Policy which set out the responsibilities of Members, Corporate Management Team and Heads of Service and was last reviewed in February 2020. The document was due for a further review but had been temporarily postponed whilst the Council awaited the outcome of two third party assessments of its current Risk Management arrangements. The findings of both reviews would need to be taken into consideration before making any changes to the current policy which would be reported to the Committee in September 2022.

The Corporate Risk Register was attached at Appendix A to the report, which had recently been discussed with Senior Management and updated accordingly. All risks were reevaluated and some scores amended. New risks were also added in respect of Temporary Accommodation Costs, Interest Rate Increases and Changes to the Rules around the Minimum Revenue Provision charge.

During the review of the Corporate Risk Register a few improvements had been made, as detailed in the report, including ensuring that there was a named lead officer assigned to each risk, which Members were pleased to note. The Deputy Chief Executive advised Members that the Corporate Management Team would also be discussing the register more frequently.

Despite reevaluating the risk scores, it was noted that in almost half of the cases listed, the risk score after mitigation was the same as the inherent risk. This did not necessarily mean that mitigating action had failed to reduce the risk, but in most cases, it simply reflected the limitations of the current 3x3 risk scoring matrix, which allowed no room for subtle changes. It was therefore proposed to introduce a 5x5 risk

scoring matrix for future risk evaluations to allow for more nuanced scoring. Other proposed changes were listed in the report.

A further longer-term objective was to establish a mechanism for the Corporate Plan Risk Register and all service-based and project risk registers to feed into the Corporate Risk Register. Training and guidance could also be required to ensure that managers were equipped with the necessary tools to identify and evaluate risk.

It was previously agreed that the Audit and Standards Committee would review the risk registers kept by individual service areas, to raise awareness of the key operational risks faced by each service area and the mitigations that were in place to prevent or reduce their impact. However, this process had since halted as a result of changes to the management structure. Members expressed an interest in learning more about the process involved when escalating risks from service area risk registers to the Corporate Risk Register and vice versa.

Members raised concerns about the change in rules around the Minimum Reserve Provision charge to the Council's revenue account. Any changes could make lending to subsidiary companies unattractive and/or prohibitive, as they could have a major impact on new borrowing. It was unlikely that new changes would not take effect until April 2023, therefore the impact could be minimised if the expenditure cash outflows could be accurately forecast.

Members commented that the Council's ability to deliver savings and income targets as set out in the Medium Term Financial Plan, depended on strong financial management and the successful delivery of the Financial Stability Programme (FSP). This required a strong partnership between Members and officers and the Corporate Risk Register cross referencing with the FSP.

The ongoing financial pressures faced by the Council meant that its acceptance of risk may have to increase, but this would need to be actively managed by both officers and Members. The process of embedding Risk Management practices at all levels of management would take time to achieve, but steps were already being taken to improve procedures.

**RESOLVED:** That the Council's Corporate Risk Register at Appendix A to the report be noted.

AS21/1. **TREASURY MANAGEMENT UPDATE**

Cabinet had approved the Council's 2021/22 Investment Strategy on 8 February 2021; this required regular reports to be presented to the Audit and Standards Committee on the Council's treasury management activities. In managing these, the Council has implemented the Department of Levelling Up, Housing and Communities investment guidance and followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management. Investment activity was also reported to Members through the monthly Members' Bulletin.

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

- As at 31 December 2021, the Council's total investments were estimated to be about £53m with £18m invested in short term call accounts and Property Funds (PF). The remaining £35m was held the General account ( a significant element of which related to cash owed to public bodies, e.g. council tax precepts, shares of business rates).
- The total income from investments was forecast at £280,000, mainly achieved from the PF, yielding returns of between 3.31% and 3.77%.
- The pandemic had continued to slow the pace of the Council's capital programme delivery and expenditure was forecast to be £15.348m in 2021/22.
- The Capital Financing Requirement (CFR) was estimated to increase to £26.167m by 31 March 2022.
- The value of outstanding loans was £27.312m of borrowing, meaning the Council now had an 'over-borrowed' position of £1.145m for a short period of time until further expenditure was incurred in 2022/23. This was due to further borrowing of £9.3 million taken out at an interest rate of 1.65% in addition to the £6.3 million of new borrowing taken out at 1.78% in the previous quarter, a deliberate decision to take advantage of extremely low interest rates;
- The ratio of Net Financing Costs to the Net Revenue Stream was expected to be 2.03% based on current forecasts, which was 6.40% lower than the original budget of 8.43%. This was due to the delay in the capital programme delivery.
- The budget for rental income from all investment properties was £1,817,780; the latest estimated outturn for 2021/22 was £1,915,936; this equated to a 6.24% gross return. The PIS rental income exceeded the budget due to a lower than anticipated level of voids on the 16, Beeching Road site.

The investment activity conformed to the approved strategy, and the Council had no liquidity difficulties. Whilst economic activity continued its recovery to pre-lockdown levels, the overall situation remained very uncertain. The cost of energy for domestic customers and commercial entities was set to increase significantly from April 2022 and the price of fuel at the pumps had already begun to rise. An increase of 1.25% percentage points on national insurance was also due in April 2022. Many council taxpayers would receive a £150 rebate on their 2022/23 bills as well as some limited support in relation to scheduled energy bill payments to partially alleviate the financial impact.

The Bank of England had increased the base rate to 0.50% since the last quarter update and further increases were predicted soon. The current economic uncertainty had been exacerbated by the Russian invasion of Ukraine and its longer lasting impact on the global economic situation was still unclear.

**RESOLVED:** That the report be noted.

## AS21/1. **ACCOUNTING POLICIES 2021/22**

Members received the report of the Chief Finance Officer which presented the accounting policies that would be used in the preparation of 2021/22 Statement of Accounts and summarised any changes from 2020/21 introduced as a result of amendments to the Code of Practice on Local Authority Accounting 2021/22 (the Code) or as part of the Council's annual review process. The report also explained the requirement to include notes on the critical judgements used in the production of the Statement of Accounts which had been presented alongside the accounting policies in line with best practice.

The Council's accounting policies were the specific principles, conventions, rules and practices that were applied in the production and presentation of the annual Statement of Accounts. These policies had to be disclosed as a note to the annual accounts; a copy of the policies was attached at Appendix A to the report.

The Code for 2021/22 had been reviewed which resulted in no significant changes compared to the previous year. However, the Council, as part of its annual review of policies, has taken the opportunity to make some minor changes to improve the wording and presentation of the policies. In addition, the section on interests in companies had been updated to reflect the Council's interest its wholly owned housing company.

In applying the accounting policies set out in Appendix A to the report, the Council would need to make certain judgements about complex transactions or those involving uncertainty about future events. The external auditors (Grant Thornton) were kept informed of any such matters.

In line with International Financial Reporting Standards (IFRS) and the Code, the Council was required to disclose those judgements that management had made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Appendix B to the report set out those critical judgements that management had made. Consultation had taken place with the Council's External Auditors, Grant Thornton UK LLP.

**RESOLVED:** That the Council's proposed accounting policies to be adopted in completing the 2021/22 Statement of Accounts be approved and the critical judgements noted.

## AS21/1. **WORK PROGRAMME**

Consideration was given to the Work Programme, which contained details of the reports to be considered by the Audit and Standards Committee for the remainder of the 2021/22 municipal year and 2022/23.

As suggested during discussions concerning the Internal Audit to December 2021, Members commented that the report on the Wholly



Owned Council Housing Company Governance Monitoring due to the 20 June meeting be accompanied by a report on the management of the Blackfriars project. The Deputy Chief Executive would advise Members in due course.

**RESOLVED:** That the Work Programme attached at Appendix A be approved.

(Councillor J. Barnes declared a Personal Interest in this matter as Vice-Chairman and Company Executive Director for the Council's Housing Company and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

**CHAIRMAN**

The meeting closed at 7:59pm

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## AUDIT AND STANDARDS COMMITTEE

<b>WORK PROGRAMME 2021 – 2022</b>	
<b>DATE OF COMMITTEE</b>	<b>SUBJECT</b>
<b>Monday 11 April 2022</b>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Grant Thornton – Audit Findings Report 2020/21</li> <li>• Grant Thornton – Annual Audit Report 2020/21</li> <li>• Grant Thornton – Audit Progress Report and Sector Update</li> <li>• Grant Thornton – External Audit Plan Year ending March 2022</li> <li>• Statement of Accounts 2020/21</li> <li>• Treasury Management Presentation</li> <li>• Annual Property Investment Update</li> <li>• Audit Planning Risk Assessment</li> </ul>
<b>WORK PROGRAMME 2022 – 2023</b>	
<b>Monday 20 June 2022</b>	<p><b>Part A – Standards Reports</b></p> <ul style="list-style-type: none"> <li>• Code of Conduct Complaints Monitoring and other Standards Matters</li> <li>• Ombudsman Complaints Monitoring</li> </ul> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Internal Audit – Annual Report and Opinion 2021/22</li> <li>• Treasury Management Update – 2021/22 Outturn</li> <li>• Annual Governance Statement 2021/22</li> <li>• Wholly owned Council Housing Company Governance Monitoring</li> </ul>
<b>Wednesday 27 July 2022</b>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Grant Thornton – Annual Governance Report 2021/22</li> <li>• Statement of Accounts 2021/22</li> <li>• Treasury Management Update</li> </ul>
<b>Monday 26 September 2022</b>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Report to 30 June 2022</li> <li>• Treasury Management Update</li> <li>• Risk Management Update</li> </ul>
<b>Monday 5 December 2022</b>	<p><b>Part A – Standards Reports</b></p> <ul style="list-style-type: none"> <li>• Code of Conduct Complaints Monitoring and other Standards Matters</li> </ul>

	<ul style="list-style-type: none"> <li>• Local Government Ombudsman Complaints Monitoring and Annual Review 2021/2022</li> </ul> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Report to 30 September 2022</li> <li>• Treasury Management Update</li> </ul>
<p style="text-align: center;"><b>Monday 20 March 2023</b></p>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Grant Thornton – Audit Progress Report and Sector Update</li> <li>• Grant Thornton – External Audit Plan 2022/23</li> <li>• Internal Audit Report to 31 December 2022</li> <li>• Internal Audit Plan 2023/24</li> <li>• Review of Internal Audit 2022/23</li> <li>• Annual Property Investment Update</li> <li>• Treasury Management Update</li> <li>• Accounting Policies 2022/23</li> <li>• Risk Management Update</li> </ul>