

AUDIT AND STANDARDS COMMITTEE

26 September 2022

Minutes of the Audit and Standards Committee meeting held at the Town Hall, Bexhill-on-Sea on Monday 26 September 2022 at 6:30pm.

Committee Members present: Councillors B.J. Drayson (Chair), R.B. Thomas (Vice Chair), J. Barnes, Mrs M.L. Barnes, P.C. Courtel, Mrs E.M. Kirby-Green (remote), L.M. Langlands and C.A. Madeley.

Other Members present: Councillor Stevens (remote).

Audit Independent Person: Mr Patrick Farmer.

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

Also present: Omer Awais, Grant Thornton (in part) (remote) and 11 members of the public via the live webcast.

AS22/24. **MINUTES**

The Chair was authorised to sign the Minutes of the meeting of the Audit and Standards Committee held on 27 July 2022 as a correct record of the proceedings.

AS22/25. **APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor K.M. Harmer, Chair of Council.

AS22/26. **DISCLOSURE OF INTERESTS**

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

Barnes, J	Agenda Item 6 – Personal interest as Vice-Chair and Company Executive Director for Rother DC Housing Company Ltd and Vice-Chair of Etchingham Trust for Sports and Recreation.
Courtel	Agenda Item 6 – Personal Interest as the Council's representative for the Hastings Furniture Service.
Drayson	Agenda Item 6 – Personal interest as committee member of Light Up Bexhill.

Patrick Farmer	Agenda Item 6 – Personal interest as Trustee and Treasurer of the Hastings and Rother Mediation Service.
Langlands	Agenda Item 6 – Personal interest as Company Executive Director for Rother DC Housing Company Ltd.
Madeley	Agenda Item 6 – Personal interest as committee member of Light Up Bexhill.
Thomas	Agenda Item 6 – Personal interest as Chair and Company Executive Director for Rother DC Housing Company Ltd.

PART A – STANDARDS REPORTS - NONE

PART B – AUDIT REPORTS

PART I – RECOMMENDATIONS TO COUNCIL

AS22/27. RISK MANAGEMENT UPDATE

The Audit Manager led Members through the Risk Management Update report which provided a position update on risk management processes, the key strategic risks currently facing the Council and outlined some of the recent improvements made to the risk management process.

The Audit Manager, in his role as Risk Management Coordinator, was currently responsible for facilitating all strategic risk management activity including maintaining the Risk Management Policy and collating and reporting on updates to the Corporate Risk Register. The responsibility for identifying and managing risks, however, remained with Senior Management.

Following on from their Enterprise Risk Management, Business Continuity and Disaster Recovery Review in February 2022, the Council's insurance provider, Zurich, were engaged to carry out further work to help improve the Council's risk management processes, by means of feedback surveys and face-to-face workshops. From this work, the Audit Manager was able to compile a new Corporate Risk Register, at Appendix B to the report, and Risk Management Policy for Member's approval at Appendix A to the report.

Grant Thornton, the Council's external auditor, also made a recommendation in respect of risk management in their Annual Audit Report 2021/22 reported to the Committee in June 2022. The shortcomings of the existing risk management processes were acknowledged in the management response and Members noted that several of the points raised had been addressed as part of the Council's work with Zurich. All outstanding items would be incorporated into further planned improvements.

The Council's Risk Management Policy was last reviewed in February 2020 and had been completely revised to reflect the changes made to the risk management process, attached at Appendix A to the report for Members' approval and referral to full Council for adoption. The most significant changes made to the previous policy were the inclusion of sections outlining the Council's risk management methodology and how it was proposed to define the Council's risk appetite.

The Corporate Management Team (CMT) had recently reviewed and updated the new Corporate Risk Register produced as a result of the Risk Management Refresh exercise, shown at Appendix B to the report. Improvements made were outlined in the report for Members' information.

Heads of Service/Service Managers should maintain a risk register for key operational risks within their service area, but presently there was no standard template for a service based risk register nor any formal review mechanism for ensuring that risk registers were kept and regularly reviewed. The Deputy Chief Executive was therefore looking to incorporate the requirement for maintaining risk registers into the service planning process, to be introduced in 2023/24.

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

- Members raised concerns that certain risks, e.g. affordable homes and temporary accommodation that could be mitigated, had been merged together with risks that could not, e.g. land supply;
- not using technology was also a risk, however the Council did not intend to be at the forefront of testing new technology;
- Members noted that the risk register was a live document, but requested that CMT re-examine the economic risks in light of inflation and the current level of energy prices, that Risk 2 (The Council cannot meet its housing objectives) be re-assessed and Risk 5 (Project delivery compromised) also be re-examined in view of the Audit findings on Procurement and the Capital Programme;
- Members requested that the following risks be considered by CMT for inclusion in the risk register: (1) Rother DC Housing Company and (2) the effects of the rising cost of living and energy crisis on staff; and
- Members suggested that, in relation to Risk 9 (Lack of quality/ quantity of staff to deliver services), staff productivity could be improved by the use of new technology, rather than viewing new technology as a risk.

Members noted that risk appetite would be reviewed regularly and a process would be put in place to report proposed amendments to Cabinet. Members were happy to recommend the policy to Council for adoption and to note the risk register but agreed that all comments and suggestions made by the Committee concerning the risk categories, be taken back to CMT for review.

RECOMMENDED: That the new Risk Management Policy at Appendix A to the report be adopted;

AND

RESOLVED: That the Council's Corporate Risk Register at Appendix B to the report be noted, but comments made by the Committee be taken back and considered by the Corporate Management Team.

PART II – DECISIONS TAKEN UNDER DELEGATED POWERS

AS22/28. REPORT OF THE EXTERNAL AUDITOR, GRANT THORNTON - AUDIT PROGRESS REPORT AND SECTOR UPDATE

Members were led through the report of the External Auditor by Omer Awais, Grant Thornton, on the progress in delivering Grant Thornton's 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:

- work on the 2021/22 audit was planned to commence from October 2022, to be reported to the Committee in December 2022;
- the Auditor's Annual Report deadline had been extended to no more than three months after the date of the opinion on the financial statements;
- following the issuing of the 2020/21 audit opinion on 20 May 2022, the audit fee for that year had been finalised as set out in the report;
- the Department for Levelling Up, Housing and Communities published its response to the local audit consultation, which confirmed plans to establish a new regulator for local audit within a new, simplified local audit framework; and
- the updated Prudential Code published by CIPFA in December 2021 removed the 'advance of need' terminology and emphasised the legislative basis for borrowing, namely that a local authority could borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

RESOLVED: That the report be noted.

AS22/29. STATEMENT OF ACCOUNTS 2021/22

Members were led through the report of the Principal Accountant that discussed the main issues affecting the Council's draft Statement of Accounts 2021/22 and provided a commentary on the core financial statements. At the current time, the Council's external auditors, Grant Thornton, were yet to commence their audit of the accounts for 2021/22 but would report on the outcome of their work later in the year in line with the revised national timescales, if possible. The draft

accounts included the Annual Governance Statement as amended and approved by the Committee at its meeting in July 2022

The following salient points were highlighted for Members' attention:

- The Code of Practice had required no major changes in the presentation of the accounts for this year.
- The Movement in Reserves statement showed the movement in the year on the different reserves held by the Council (analysed between 'usable' and unusable). The surplus of £0.688m (£1.174m deficit in 2020-21) on the provision of services line shows the true economic cost of providing the authority's services.
- The net change of £3.856m before transfers from Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers from earmarked reserves was made by the Council.
- The Balance Sheet showed the balances and reserves at the Council's disposal, its long-term indebtedness, the net current assets employed in its operations and summarised information on the fixed assets held. The net worth of the Council has increased by £16.127m, largely due to a decrease in the Pension Fund liability (£11.3m), decrease in the Collection Fund deficit (£2.3m), increase in the value of investment in property funds (£1.3m) and increases in the capital grants in the usable reserves (£1.4m).
- The Pension Fund liability of £11.3m was a long-term financial assessment of a possible shortfall based on its current performance and therefore no immediate action was required.
- Overall, the Collection Fund balance at year end was a deficit of £4.094m; this balance was made up of both Council Tax and Business Rates. For Council Tax, the Fund was in surplus by £0.96m, with East Sussex County Council entitled to the majority of this amount. For Business Rates, the Fund was in deficit of £5.054m with the Government receiving the highest amount followed by this Council. The deficit arose mainly due to the amount of business rate reliefs announced by Central Government relating to 2021/22, which would have been offset by additional section 31 grant payments to the Council.

The Balance Sheet showed that, overall, the financial position of the Authority remained sound with an adequate amount of reserves in place to meet short term needs. The COVID-19 pandemic had exacerbated the financial pressure on the Council both in 2020/21 and 2021/22 and the worsening economic climate was likely to add to the pressures and affect reserves balances. It was therefore essential that in the medium term, the Council continued to deliver the target savings set out in the Medium-Term Financial Plan as well as the Financial Stability Programme in order for the Council to balance its budget.

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

- although the Pension Fund did not impact the Council's cash position, it was important for Members to have an understanding of its principles;
- officers would share with Members more detailed information from the Pension Fund report;
- Business Rates reliefs had been largely covered by Section 31 grant funding received from central Government; and
- Members thanked the Chief Finance Officer and Principal Accountant for the recent training delivered on interpreting the Council's Statement of Accounts.

RESOLVED: That the Council's draft 2021/22 Statement of Accounts be noted.

(Councillor J. Barnes declared a Personal Interest in this matter as Vice-Chairman and Company Executive Director for Rother DC Housing Company Ltd and Vice-Chair of Etchingam Trust for Sports and Recreation and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

(Councillor Courtel declared a Personal Interest in this matter as the Council's representative for the Hastings Furniture Service and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

(Councillors Drayson and Madeley each declared a Personal Interest in this matter as committee members of Light Up Bexhill and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

(Patrick Farmer declared a Personal interest in this item as Trustee and Treasurer of the Hastings and Rother Mediation Service and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

(Councillors Langlands and Thomas each declared a Personal interest in this item as Company Executive Directors and Chair respectively for Rother DC Housing Company Ltd. and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

AS22/30.

INTERNAL AUDIT REPORT TO 30 JUNE 2022

The Audit Manager led Members through the internal audit report to 30 June 2022 that gave details of audit matters and any emerging issues, not only in relation to audit but risk management and corporate governance.

Two 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. Both audits only provided limited assurance on the overall governance arrangements and the reasons for this were outlined in the report.

Appendix B to the report updated Members on progress made on implementing the audit recommendations reported at the previous meetings. Only two long outstanding recommendations remained and whilst progress continued to be made to resolve the Procurement recommendation, no further progress had been reported during the quarter on ICT Governance.

Good progress continued to be made on the 2021/22 recommendations, with over three quarters of the issues raised resolved, including one high risk recommendation made in quarter 4.

The Audit Manager had previously reported that the Public Sector Internal Audit Standards required all Internal Audit service providers to undergo an external quality assessment every five years. The Rother District Council (RDC) Internal Audit team's last external assessment was completed in April 2017, so another review was now due. The Audit Manager had been in contact with audit colleagues from Hastings, Lewes & Eastbourne and Wealden councils to discuss the possibility of conducting reciprocal peer reviews, similar to those carried out in 2017/18 and all had agreed to participate in such an arrangement. Each council would be reviewed by a team of two, with one auditor acting as the principal (or lead) reviewer and the other assisting in a supporting role only, to reduce the potential for conflicts of interest due to one of the team also being assessed by a council that they themselves had reviewed.

The RDC Internal Audit team was due to be reviewed first, and this assessment would be undertaken by the Chief Internal Auditors at Lewes & Eastbourne and Hastings during the week commencing 23 January 2023. The Audit Manager hoped to be able to report the results of the completed review at the Committee's meeting in March 2023.

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

- the Capital Programme Audit had been at the request of the Chief Finance Officer (CFO) due to issues around monitoring. Major steps had already been taken in order to address issues;
- the Procurement Audit highlighted the need for greater awareness of compliance with the procedure rules, and training for staff and Members was currently being discussed with the East Sussex Procurement Hub;
- a culture shift was required in respect of issues identified in both audits. The Corporate Management Team (CMT) were now more involved than in the past, which would help to ensure issues were fully addressed;
- Members raised concerns that the reciprocal arrangement for an external review of the Internal Audit department with other local authorities might not be completely independent;
- the Capital Programme was monitored and reported quarterly to the Overview and Scrutiny Committee (OSC) and Cabinet; management responses to issues raised in the Audit would be included. The CFO also added that the major capital programme

projects, such as purchases made under the Property Investment Strategy (PIS) and Temporary Accommodation purchase programme, were already subject to rigorous appraisal and in the case of the PIS, proposed acquisitions required the approval of the Property Investment Panel;

- the CFO was already reporting progress on the Capital Programme to the Senior Leadership Team (SLT) on a monthly basis and affordability was now being looked at within the Medium Term Financial Plan, being reported to the OSC and Cabinet; and
- Members requested that an update and the management responses to issues raised in the Audits be reported back to the Committee and this would be added to the Work Programme.

RESOLVED: That:

- 1) the Internal Audit report to 30 June 2022 be noted; and
- 2) an update and the management responses to issues raised in the Audits be reported back to the Committee and added to the Work Programme.

AS22/31. **TREASURY MANAGEMENT UPDATE**

The Council's Investment Strategy required regular reports to be presented to the Audit and Standards Committee on the Council's treasury management activities. In managing these, the Council had 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.

The investment activity to date conformed to the approved strategy and the Council had had no liquidity difficulties. Investment activity was also reported to Members through the monthly Members' Bulletin. The report focused on the financial period ending 30 September 2022 and was based on the latest available data.

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

- As at 30 September 2022, the Council's total investments were about £38m with £10m invested in short term call accounts, £6m in a fixed term deposit with a local authority and £8m in Property Funds. The remaining £14m was held in 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 £600,000 in 2022/23, mainly achieved from the Property Funds, yielding returns of between 3.06% and 3.68%. This might be affected by subsequent interest rate changes.
- Due to the recent increases in interest rates, higher than expected returns (£190,000) were predicted to be gained from call accounts with a further £68,000 due on the maturity of a loan to a local authority in February 2023. The investment

portfolio and Property Fund values were detailed in Appendix A to the report.

- The pandemic again slowed the pace of programme delivery in 2021/22 however, it had already accelerated in the first half of 2022/23 and was expected to continue doing so throughout the year. Members noted that the capital programme would again be reviewed for affordability as part of the Medium-Term Financial Planning process.
- The value of outstanding loans as at 30 September 2022 was £32.152m, well below the Council's forecast CFR of £85.657m; the difference would decrease as the programme delivery accelerated and the Council's borrowing requirement increased.
- The ratio of Net Financing Costs (NFC) to the Net Revenue Stream was predicted to be 5.55% by the end of the financial year, which was 5.83% lower than the original budget. This was due to the delay in the capital programme delivery and the additional investment income achieved from the Property Funds and interest on call accounts, which reduced the NFC.
- The budget for rental income from all investment properties was £1,969,165; the Quarter 1 forecast income was £2,602,626. The additional Non-Property Investment Strategy (PIS) rent income shown in the report was due to the rental income from the second floor of Amherst Road. The additional PIS rent income was due to the purchase of Buckhurst Place. Both leases were agreed after Council had approved its budget. Appendix D to the report gave more detail on those properties purchased as part of the PIS.

There had been no significant developments since the draft 2021/22 Treasury Management update reported to the Committee on 20 June 2022. However, the economic outlook remained extremely uncertain and difficult to predict. Officers would continue to monitor closely all economic activity and report any major changes to Members at the earliest opportunity.

There was currently a Government consultation being held regarding the future of IFRS9 statutory override, due to expire on 31 March 2023, which allowed councils to override fair value movements on pooled investments in order to protect the revenue budget from market volatility. Such movements were currently reversed from the General Fund and into unusable reserves, so they did not have an impact on budget setting. Without the override, negative movements in their value would cause a budget deficit and require more funds to be withdrawn from Usable reserves. The consultation was due to close on 6 October 2022.

If the override was removed, the Chief Finance Officer (CFO) did not anticipate a negative impact on the 2022/23 or 2023/24 budget, but it was difficult to predict beyond that point. The Council would engage their treasury management specialists, LINK Asset Services, for further consultation, together with the CCLA and Hermes Property Funds.

The Council currently enjoyed a positive value on the Pooled Investment Funds Adjustment Account of £1.25m which meant that

their value was higher by that amount than what was originally invested.

Members noted that the Council had lent £6m to Thurrock Borough Council, to be paid back next year. The CFO explained that all Local Authorities were effectively underwritten by central Government, therefore the loan was not considered to be at risk of default. The interest on the load was paid at 2.3% and would therefore generate £70k in income for the Council in the current year. The CFO would consider using further inter authority lending in the future to generate better returns on investments.

The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

RESOLVED: That the report be noted.

AS22/32. **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 2022/23 municipal year and the following additions were made:

- Update and the management responses to issues raised in the Procurement and Capital Programme Audits – 5 December 2022 and 20 March 2023.

RESOLVED: That the Work Programme attached at Appendix A be approved, as amended.

CHAIR

The meeting closed at 8:31pm

AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2022 – 2023	
DATE OF COMMITTEE	SUBJECT
Monday 5 December 2022	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring and other Standards Matters • Local Government Ombudsman Complaints Monitoring and Annual Review 2021/2022 <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Internal Audit Report to 30 September 2022 • Procurement and Capital Programme Audits Update and Management Responses • Treasury Management Update – Quarter 3 • Outcome of the review and position appraisal of Rother DC Housing Company Ltd
Monday 20 March 2023	<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 2022/23 • Internal Audit Report to 31 December 2022 • Procurement and Capital Programme Audits Update and Management Responses • Internal Audit Plan 2023/24 • Review of Internal Audit 2022/23 • Annual Property Investment Update • Treasury Management Update • Accounting Policies 2022/23 • Risk Management Update

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