

AUDIT AND STANDARDS COMMITTEE

26 July 2023

Minutes of the Audit and Standards Committee meeting held at the Town Hall, Bexhill-on-Sea on Wednesday 26 July 2023 at 6:30pm.

Committee Members present: Councillors B.J. Drayson (Chair), J. Barnes (MBE) (Vice-Chair) (remote), A.E. Biggs, Mrs V. Cook (ex-officio) (in part), P.J. Gray, A.P. Hayward, S.B. McGurk and R.B. Thomas.

Other Members present: Councillor Coupar (remote).

Audit Independent Person: Mr Patrick Farmer.

Advisory Officers present: Interim Deputy Chief Executive, Corporate Programme, Risk and Improvement Manager and Democratic Services Manager.

Also present: Darren Wells (Grant Thornton) and 4 members of the public via the live broadcast.

AS23/15. **MINUTES**

The Chair was authorised to sign the Minutes of the meeting of the Audit and Standards Committee held on 19 June 2023 as a correct record of the proceedings.

AS23/16. **APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor Pearce.

AS23/17. **DISCLOSURE OF INTERESTS**

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

Thomas Agenda Item 10 – Personal Interest as Chair of Rother DC Housing Company Ltd.

PART A – STANDARDS REPORTS

PART I – RECOMMENDATIONS TO COUNCIL

AS23/18. **INDEPENDENT PERSON (STANDARDS) - PROPOSED EXTENSION TO TERM OF OFFICE**

Members received the report of the Monitoring Officer to consider the proposal to extend the current Term of Office for Independent Person (Standards) Rose Durban by a further term of four years to December 2027, the maximum permissible.

The Localism Act 2011, Chapter 7, Section 28 placed a duty on the Council to appoint one or more Independent Persons (IPs). The Council currently had two IPs and had previously agreed that the term of office for IPs be set at four years, renewable once, to a maximum of eight years. Rose Durban was appointed in December 2019, and consequently, her initial term of office would expire in December 2023.

To avoid unnecessary administrative time and costs in recruiting, advice had confirmed that if all parties were agreeable to an extension to the existing term of office, there was no need to carry out a fresh recruitment exercise. The Monitoring Officer was keen to retain Rose Durban as an IP and the offer of an extension, subject to Member approval, had been accepted by Rose Durban.

The Audit and Standards Committee were happy to recommend to Council that the Term of Office for Rose Durban be extended for a further period of four years, expiring in December 2027.

RECOMMENDED: That the Term of Office for Independent Person (Standards) Rose Durban be extended by a further term of four years until December 2027.

PART B – AUDIT REPORTS

PART I – RECOMMENDATIONS TO COUNCIL

AS23/19. AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT

Members received the inaugural report of the Chair of the Audit and Standards Committee (ASC) which outlined the role, purpose and background of the Committee, as well as a summary of the audit-related work undertaken throughout both the 2022/23 financial year. The Annual report to Council provided an opportunity for the Committee to raise its profile within the Council and Members were invited to consider the report and suggest any changes.

Members remained concerned at internal audit recommendations that remained outstanding and sought assurance that improved monitoring and implementation of audit recommendations would be made. It was advised that the Internal Audit Manager now regularly attended Strategic Leadership Team meetings to discuss long outstanding recommendations that had not been implemented. It had also previously been agreed by the Committee that Service Managers responsible would be invited to attend future meetings to explain why recommendations had not been implemented. The capacity required to implement recommendations was not always apparent when responsible officers set timescales with all good intentions.

It was agreed that the Committee's role in monitoring the governance arrangements of the Council's Housing Company and the Capital Programme in general be strengthened within the report. The Corporate Programme, Risk and Improvement Manager volunteered to establish whether she could track audit recommendations within her role, to further strengthen the process.

It was agreed that a revised draft report would be circulated by email to all Committee Members before final sign-off and approval by the Chair, in consultation with the Interim Deputy Chief Executive, prior to submission to Council in September.

RECOMMENDED: That:

- 1) the report be noted;
- 2) the work of the Audit and Standards Committee be affirmed; and
- 3) consideration be given to any concerns raised within the report and amended as discussed with the final draft to be approved by the Chair, in consultation with the Interim Chief Executive prior to submission to Council in September.

PART II DECISIONS TAKEN UNDER DELEGATED POWERS

AS23/20. REPORT OF THE EXTERNAL AUDITORS GRANT THORNTON - EXTERNAL AUDIT PLAN 2022/23

Darren Wells from Grant Thornton (GT) summarised the External Auditors' Annual Audit Plan report for the year ending 31 March 2023. The purpose of the report was to highlight and explain the key issues which GT believed to be relevant to the audit of the financial statements and use of resources of the Council for the 2022/23 financial year.

The report formed a key part of GT's communications strategy with the Council, which was designed to promote effective two-way communications throughout the audit process. Darren Wells guided Members through the comprehensive plan which gave details of: Key Matters Impacting the Audit; Significant Risks Identified; Other Risks Identified; Other Matters; Progress Against Prior Year Audit Recommendations; Materiality; IT Audit Strategy; Value for Money (VFM) Arrangements; Risks of Significant VFM Weaknesses; Audit Logistics and Team; Audit Fees; Independence and non-audit services; and Communication of Audit Matters With Those Charged With Governance. The following points were highlighted for Members' attention:

- the Council's planning materiality had been set at £1.19m;
- key risks included management override of controls, valuation of the pension fund net liability, valuation of land and buildings the revenue cycle includes fraudulent transactions (rebutted) and fraudulent expenditure recognition;
- five prior year audit recommendations were still to be addressed; and
- the proposed audit fee was £62,909.

It was noted that the Council's actual drawdown of reserves in 2022/23 to balance the budget was £1.5m and not £3.3m as highlighted as a local issue.

Whilst improvements had been made to capital project monitoring (with reference to the Blackfriars development) it remained a risk and would be revisited and reported back on whether this issue had been addressed sufficiently or not. It was confirmed that a range of improvements had been implemented and were on-going and management were confident that these improvements would be apparent when audited in October.

The Council's financial position in 2023/23 had continued to be challenging amidst rising inflation rates and the cost of living crisis which had a major impact on the Council's finances and services.

RESOLVED: That the report be noted.

(Councillor Thomas declared a personal interest in this matter as Chair of the Council's Housing Company, and in accordance with the Members' Code of Conduct remained in the room during the consideration thereof).

AS23/21.

LOCAL CODE OF CORPORATE GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT (AGS)

The Local Code of Corporate Governance, attached at Appendix A to the report, was a public statement of the ways in which the Council would achieve good corporate governance, based on the development of the new 'Delivering Good Governance in Local Government: Framework' (CIPFA/Solace, 2016) ('the Framework') and focused on the seven core principles and sub-principles of good governance. The Framework was intended to assist authorities individually in reviewing and accounting for their own unique approach.

Although previously adopted by the Council, the full compliance assessment had never been undertaken. The full detailed line by line assessment had been carried out for the first time and was CIPFA best practice. Members were extremely appreciative of the comprehensive assessment and resulting recommendations which provided a vast improvement in previous years and would further support, strengthen and develop the governance framework, local accountability and transparency.

The Annual Governance Statement (AGS) was prepared following a review of all the evidence available to the A&SC, the Council's Senior Leadership Team, Corporate Management Team, Audit Manager, external audit and the statutory officers of the Council in seeking compliance with its Local Code and was attached at Appendix B to the report.

The AGS provided assurances as to the in-year operation of the risk and governance arrangements adopted by the Council. It set out how the Council ensured that its business was conducted in accordance with the law and proper standards and that public money was safeguarded and properly accounted for and used economically, effectively and efficiently in the delivery of its services. The outcome of the review was set out under the heading of Governance Issues.

During the debate the following points were noted:

- the assessment related to the 2022/23 year, improvements in the performance management framework introduced within the last six months were not currently “embedded” at the point of the review and would be captured in future assessments;
- the presentation/layout of the report was difficult;
- discussions were on-going as to how the authority could capture all various recommendations across the whole of the Council from all different sources and the Corporate Programme, Risk and Improvement Manager and her Team would be instrumental in this work to ensure effective monitoring and accountability; consideration would need to be given to which committee of the Council would be the appropriate reporting mechanism to receive updates on progress;
- it was disappointing to note that there were currently no procedures in place to capture and share positive feedback and compliments;
- it was noted that the “Councillor Call for Acton” sat within the remit of the Overview and Scrutiny Committee and was contained within the Constitution – details would be circulated to Members; and
- Members were keen to be involved in any projects / development of the communications strategy to support improved engagement initiatives within communities.

The report demonstrated the robust approach the Council took to ensure good governance. The issues highlighted through inspection, both internal and external, provided assurance that the controls and procedures in place provided Members with a high degree of assurance. The report highlighted the areas where improvement was required and the risks to the Council and its partners resulting from the poor economic climate and the associated impact on funding in the public sector.

The arrangements set out within the updated Local Code of Corporate Governance and the AGS would allow the Council to move forward with its corporate planning processes and remain confident that it could address the issues of governance and risk. Adoption of the Local Code would demonstrate the Council’s compliance with best practice.

RESOLVED: That:

- 1) the Local Code of Corporate Governance and improvement actions be approved;
- 2) the Annual Governance Statement be approved; and
- 3) the Statement be signed by the Leader of the Council and the Chief Executive.

AS23/22.

TREASURY MANAGEMENT UPDATE REPORT

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. Members noted that the 2022/23 outturn figures were draft and also subject to audit, although no material changes were anticipated at that point in time.

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

- As at 31 March 2023, the Council's total investments were approximately £20.6m, with investments of £12.6m in Call accounts and £8m in pooled Property Funds. Members were asked to note that a significant element of this balance related to cash owed to other public bodies, e.g. council tax precepts and shares of business rates.
- The Council's investments were currently predicted to have yielded interest income of £1.006m in 2022/23 which was higher than predicted, partly due to incremental Bank of England interest rates increases and partly as a result of accrued interest on the loan instalments to the Rother District Council Housing Company Ltd and Property Funds, which yielded returns of between 3.24% and 4.04%. The investment portfolio and Property Fund values were detailed in Appendix A to the report.
- The Council's Capital Financing Requirement (CFR) showed how much of its capital expenditure was financed by borrowing, summarised in Appendix B to the report. The Capital Programme (CP) delivery in 2022/23 accelerated compared to 2021/22, although not to the extent that was originally forecast so the CFR only increased by £17.6m against a budget of £74.8m. Members noted that the CP continued to be reviewed for affordability as part of ongoing monitoring.
- The value of outstanding loans as at 31 March 2023 was £32.0m. This was £11.2m lower than the CFR meaning the Council was 'under-borrowed,' and effectively borrowed internally using up its cash balances rather than borrowing when interest rates were high.
- The ratio of Net Financing Costs (NFC) to the Net Revenue Stream was predicted to be 0.25% for the year, which was 11.13% lower than the original budget due to the delay in the capital programme delivery and the additional investment income received, which reduced the NFC.
- The Council's non-treasury investments were detailed in the report and split between existing assets and those purchased through the Property Investment Strategy (PIS). Non-PIS assets yielded a 5.01% return on investment and PIS assets a 6.68% return. The additional PIS rent income was due to the purchase of Buckhurst Place, the lease for which was agreed after Council had approved its budget. Appendix D to the report gave more detail on those properties purchased as part of the PIS. Investment in properties that yielded income for the Council was still considered a prudent way of increasing income, despite the volatility in the property market at the current time. Should the Government remove the IRS9 override in

the future, it would be prudent to establish a Treasury Management Volatility reserve to smooth out fluctuations in paper losses.

- The ongoing impact on the UK from the war in Ukraine, together with the highest inflation for the last 40 years, rising interest rates, uncertainties over government policy, and an uncertain economic outlook, continued to impact on current treasury management activities.
- Forecasting economic activity in the current climate was fraught with difficulties. Officers would continue to monitor closely any future changes and would factor them into the Council's next update of the Medium-Term Financial Plan in due course.

The investment activity conformed to the approved strategy, and the Council had no liquidity difficulties. It was noted that future budgeting reports would be more transparent and provide a clearer and easier format for Members to see and understand in the future.

RESOLVED: That the report be noted.

AS23/23.

AUDIT AND STANDARDS COMMITTEE SELF-ASSESSMENT MARCH 2023

Members received the report of the Interim Deputy Chief Executive that set out the results of the Audit and Standards Committee's (ASC) first self-assessment and identified actions to help improve the effective of the Committee.

The Chartered Institute for Public Finance and Accountancy (CIPFA) set out guidance on the function and operation of audit committees. It was considered good practice for audit committees to complete a regular self-assessment exercise to be satisfied that the committee was performing effectively. In addition, the Public Sector Internal Audit Standards also called for audit committees to assess their remit and effectiveness, in relation to Purpose, Authority and Responsibility, to facilitate the work of the committee.

The Council's External Auditor Grant Thornton, had, in their Value for Money assessment for 2021/22 accounts, recommended that the Council implement a rolling schedule of committee effectiveness reviews; the Committee self-assessment process would help to support that improvement.

As the ASC had not completed the self-assessment process before, a session was facilitated by the Interim Chief Finance Officer during April 2023 to allow the Committee Members to discuss and complete the first draft of the assessment template and supporting action plan. The assessment was also reviewed by the ASC Independent Person (Audit) and comments reflected where appropriate.

Attached at Appendix 1 to the report was the completed self-assessment good practice guide and associated improvement actions. Members considered the improvement actions identified, along with timescales for completion and agreed that all, except for the completion of the

Knowledge and Skills Framework Audit, be moved to end of March 2024, but with a view to completing sooner, if possible.

With regard to the Knowledge and Skills Audit (Appendix 2), it was noted that this applied to Members of the Audit and Standards Committee only. It was agreed that an informal (MS Teams) meeting was held in early September for the Committee to consider the Skills Audit to identify further training needs. It was considered that some of the knowledge and skills required would already have been delivered through the Member Induction Programme, although not under the umbrella of Audit Committee training.

Completing the self-assessment helped to give the ASC assurance that it was complying with best practice and operating effectively. It would also help to identify any areas which needed to be improved and could form the basis of an action plan prior to the next self-assessment in March 2024. Undertaking a regular review of its performance against best practice ensured that the ASC had properly assessed the way in which it discharged its duties.

It was noted that Members were keen to see actions from the previous meeting reported to each meeting, even though this was not local authority minuting protocol; how this could be actioned would be considered by officers and reported back to Members in due course.

RESOLVED: That:

- 1) the contents of the report be noted;
- 2) all recommendations be completed by the end of March 2024, if not completed sooner; and
- 3) an informal MS Teams meeting be arranged for early September to consider the Knowledge and Skills Audit.

AS23/24. **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 2023/24 municipal year and the following additions were made:

- Knowledge and Skills Audit Update – October meeting;
- Debate Not Hate: Ending Abuse in Public Life for Councillors and Dispensation Policy - December meeting; and
- Self-Assessment Annual Review – March 2024 (with an informal meeting in early February to carry out initial review).

It was noted that consideration needed to be given to how and when the Committee were going to scrutinise the Council's Housing Company. It was agreed that the Chair would discuss the best approach with the Interim Deputy Chief Executive and report back at the next meeting, which may include holding a separate meeting, dedicated to reviewing

the Housing Company, which may need to be held in confidential session due to commercial sensitivities.

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

CHAIR

The meeting closed at 8.21pm

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AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2023 – 2024	
DATE OF COMMITTEE	SUBJECT
Monday 2 October 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 • Statement of Accounts 2022/23 • Internal Audit Report to 30 June 2023 • Treasury Management Update • Risk Management Update • Knowledge and Skills Framework Update
Monday 4 December 2023	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Local Government and Social Care Ombudsman Complaints Monitoring • Code of Conduct Complaints Monitoring and other Standards Matters • Self-Assessment of RDC Owned/Leased Accommodation Complaints Handling • Debate Not Hate: Ending Abuse in Public Life for Councillors • Dispensation Policy <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Audit Findings Report 2022/23 • Internal Audit Report to 30 September 2023
Monday 25 March 2024	<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 – Annual Audit Report 2022/23 • External Auditor - External Audit Plan 2023/24 • Internal Audit Report to 31 December 2023 • Internal Audit Plan 2024/25 • Review of Internal Audit 2023/24 • Risk Management Update • Property Investment Strategy Update • Treasury Management Update • Self-Assessment Annual Review

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