

AUDIT & GOVERNANCE COMMITTEE

29 July 2021 at 6.00 pm

Present: Councillors Clayden (Chair), Chapman (Vice-Chair), Bennett, Chace, Goodheart, Haywood, Oliver-Redgate and Staniforth

195. WELCOME

The Chair opened the meeting and welcomed Members of the Committee, the Public and Press, and Officers participating in this meeting of the Audit & Governance Committee, noting that it was the first in person since the easing of restrictions.

196. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillor Northeast and Councillor Tilbrook.

197. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

198. MINUTES

The Minutes of the meeting held on 25 February 2021 were approved by the Committee.

199. PUBLIC QUESTION TIME

The Chair confirmed that no questions were submitted for this meeting.

200. START TIMES

The Chair proposed that start times for the Audit & Governance Committee meetings for 2021/22 be 10.00am. This was seconded by Councillor Chapman.

After a short debate, the proposal was put to the vote and there being an equality of votes, the Chair used his casting vote in favour of the motion.

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The Committee

RESOLVED

That its start times for meetings for 2021/22 be 10.00 am.

201. COMMITTEE TERMS OF REFERENCE

The Chair invited the Interim Monitoring Officer to present his report, who introduced the Terms of Reference for the Committee. He explained that as the Council had transitioned from a Cabinet form of governance, to a Committee form of governance, the first meeting of the Committee in the municipal year consisted of going through the Terms of Reference. This was for Members to see what the Terms of Reference of the Committee were, for clarification to be sought, and for any suggestions for change that Members had to be taken to the Constitution Working Party (CWP).

There were no questions from Members.

The recommendations were then proposed by Councillor Chapman and seconded by Councillor Bennett.

The Committee

RESOLVED – that

- 1) the general Terms of Reference for Committees in Part 3 paragraph 3 of the Constitution be noted, and the specific Terms of Reference of this Audit and Governance Committee as established by Full Council on 19 May 2021 as set out in part 1 and Part 2 of Appendix 1 be further noted.
- 2) the schedule of Audit and Governance Committee meetings set out in the Calendar of meetings attached be noted.

202. RESPONSE TO ERNST & YOUNG ON ANNUAL ASSURANCE LETTER REGARDING GOVERNANCE ARRANGEMENTS

The Chair invited the Internal Audit Manager to present his report, who explained that each year as part of the preparation for their annual audit, the Council's external auditors, Ernst & Young LLP, requested information from the Chair of the Audit & Governance Committee, as well as the Section 151 Officer and the Internal Audit Manager.

There were no questions from Members.

The Committee agreed that they had received and noted the response sent to the external auditors by the 2020/21 Vice-Chair of the Committee.

203. AUDIT PLANNING REPORT

The Chair invited the Associate Partner, Kevin Suter and the Audit Manager, James Stuttaford, from Ernst & Young LLP to present the Audit Planning Report.

The Associate Partner explained that the plan was being presented to the Committee later than normal, and it usually would have been presented in March. This was due to a backlog that had been created by the Coronavirus pandemic. Changes to last years timetable had occurred and the deadlines had all moved backwards. They had also had difficulties auditing in the current environment. They had a large backlog, an issue that was affecting all public sector auditors. He advised Members may be interested in the Public Accounts Committee's recent summary of the issues and challenges facing public sector audit. They had to take a very difficult decision, which he recognised would be unpopular, to prioritise audits and schedule those according to when they had resources available. They had decided to schedule their major local audits first, which maximised their contribution to the National Audit Office. They would then schedule the smaller audits afterwards. He explained they had moved the audit back to November this year.

The Audit Manager drew attention to page 29, the Audit Strategy for the year. He noted that most risks on file remained the same as in previous years. One of significant risks in the previous year was the valuation of land and buildings, due to Covid-19 and lockdown, which led to the expert valuer recording a material valuation of uncertainty in the report. This year the risk has been reduced, it was maintained at an inherent risk due to property plant and equipment valuation still representing a significant balance in the Council's accounts, and there was an inherent estimation of uncertainty involved. The pension liability valuation remained an inherent risk. A new area of focus was around the accounting for Covid-19 relating to grant income. This was because it was a significant amount of money that had been passed down to the Council, and was a new area of accounting for this year. He also highlighted Value for Money arrangements which had changed slightly for this year. On page 41 it noted there was a new 2020 Code of Audit Practice, which had resulted to a change in Value for Money arrangements. Instead of giving a Value for Money conclusion, there would now be a Value for Money commentary. They would be supplying this in the Auditors Annual Report instead of the Annual Audit Letter.

The Chair invited questions from Members. It was asked what the delay in auditing would mean for the Group Head for Corporate Support and the finance team. The Group Head for Corporate Support explained that the rescheduling of the Audit would use more financial resources at a time when they would be very busy. However, she trusted their working papers would be up to standard and the audit would be completed as soon as possible.

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The Chair was disappointed with the delay, however he understood these were difficult times. He noted the additional demands on the Group Head for Corporate Support's department and said she should inform the Committee if there was anything that could be done to assist.

The Committee noted the delay in the scheduled external audit to November 2021, and the remainder of the Audit Planning Report.

204. ANNUAL AUDIT FEE LETTER

The Chair invited the Internal Audit Manager to present his report. He explained that at the February meeting of the Committee, Ernst & Young LLP presented their Annual Audit Letter which advised of additional fees requested for work on the 2019/20 Accounts. The increase had to be approved by the commissioning body, Public Sector Audit Appointments Ltd (PSAA Ltd), and if approved some of the increase would then be applied to the future years fee base. The Committee had expressed its concern at the level of the proposed increase and requested that a letter be sent from the Chair to PSAA as the commissioning body, to express its dissatisfaction with the situation. It was not yet known whether PSAA had agreed the proposed increase, but it was understood that a similar situation would exist at other Councils. In the covering report at page 66, there was also a note about the Independent Redmond Review recommendations which would change the local audit, and transparency of local authority reporting in the future.

The Chair asked whether a reply had been received to the letter. It was thought that a reply had not been received.

Upon the Chair inviting questions from Members, it was suggested that a follow-up letter be sent to PSAA Ltd by the Chair, which was agreed by the Committee.

205. ANNUAL GOVERNANCE STATEMENT 2020/21 AND CODE OF CORPORATE GOVERNANCE 2021/22

The Chair invited the Internal Audit Manager to present his report. He highlighted that the Annual Governance Statement was a mandatory document to accompany the Accounts covering the 2020/21 period. The document was based on the Chartered Institute of Public Finance and Accountancy (CIPFA) framework and had been updated for the year including input from management, CMT and the Leader. The most notable changes related to the delay in the audit of the 2020/21 Accounts; the change to the committee system of governance; changes through 2020/21 in relation to the pandemic. The Internal Audit Manager drew Members' attention to page 85 of the pack. He stated the Council had distributed well over £50,000,000 of Government grants to local businesses under various schemes in operation since March 2020, which had involved a tremendous amount of work by staff in the Revenues section for mandatory grants to ratepayers and in the Economy section for discretionary grants to other business significantly impacted by the pandemic.

The Internal Audit Manager said that in view of the delay in the presentation of the audited Accounts, it was likely that it would be appropriate for some minor changes to be made to the final version of the AGS when it was presented. In addition, at page 109, there were some very minor changes to the Council's underlying Local Code of Corporate Governance.

The Committee noted the Council's draft Annual Governance Statement for 2020/21, pending approval of the final version later in the year.

206. UPDATE ON TENANCY FRAUD

The Chair invited the Neighbourhood Services Manager to present her report, who explained that tenancy fraud was a very common problem for local authorities, and it could be very difficult to detect without specialist investigations, which often involved visiting people in their homes. The post of Fraud Investigation and Enforcement Officer, previously the Housing Investigator, became vacant in January 2020. They had now successfully recruited to the post and were delivering a service, which they were reviewing to develop a robust approach, to detect and investigate all reports of tenancy fraud.

A discussion took place around whether an update report should be provided in 6 months rather than in 12 months. This was proposed by Councillor Chapman and seconded by Councillor Haywood.

The Committee

RESOLVED – that

- 1) the report be noted.
- 2) an update report comes back to the Committee in 12 months, with an additional update report in the February 2022 Committee meeting.

207. TREASURY MANAGEMENT ANNUAL REPORT 2020/21

The Chair invited the Senior Accountant (Treasury) to present her report, who highlighted a few areas in her report as follows:-

- Page 116, the Member briefing held on 13 July 2021, carried out by the Treasury Management Advisor, Richard Bason from Link Group, which she understood Members found informative.
- Page 120 and 125, it mentioned Returns on Investments, which had been challenging due to the low interest rate environment, however investments with CCLA Diversified Fund, introduced to Arun in August 2020 helped the returns.

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There were also additional funds from the Covid Grants, which increased the monetary value on the returns. The rates dropped significantly from the budgeted rates, due to Covid-19. The budgeted rates of 1.26% dropped to an actual rate of 0.86%, however the monetary value was at £550,000 on the budget, but £627,000 had been achieved, which was an additional £77,000. They survived negative rates.

- Page 122 the base rate expectations by advisors in November 2020 was to stay at 0.1% until after March 2024, whereas pre-Covid-19 it was expected to be at 1.25% in March 2023.
- Page 124 the borrowing stood at £44,000,000 with £8,860,000 due to be paid off on 28th March 2022 leaving £35,000,000 million at 28th March 2022.

There were no questions from Members.

The recommendations were then proposed by Councillor Bennett and seconded by Councillor Chapman.

The Committee

RECOMMEND TO FULL COUNCIL – that

- 1) the actual prudential and treasury indicators for 2020/21 contained in the report be approved
- 2) the annual treasury management report for 2020/21 be noted
- 3) the treasury activity during 2020/21 which has generated interest receipts of £627,000 (0.86%), budget £550,000 (1.26%) be noted.

208. HOUSING BENEFIT SUBSIDY CLAIM 2019/20 CERTIFICATION

The Chair invited the Internal Audit Manager to present his report, who explained that Ernst & Young LLP undertook this work on behalf of the Council and reported the results to the Department for Work and Pensions (DWP). In the past they had provided a summary report which has been presented to the Committee. However, they now only provided a technical report to Revenues & Benefits management, a 'summary' then had to be drafted separately by Officers. The results were a credit to the work of the Benefits and Benefits Subsidy staff involved with a small number of minor items being reported. While this had resulted in a small final adjustment to the claim submitted to the DWP and a qualification letter being raised, this was basically a standard for when any errors were noted as part of the certification and, as had been advised to the Committee previously, was not a significant issue in the same way that a qualification from the audit of the Council's main Accounts would be. The Committee's view was sought on whether it wished to receive a similar report each year as it now had to be prepared by Officers, or whether it would be happy that a report was only presented in future if significant issues were identified as part of the certification.

Members expressed the view that whilst it was nice to be able to thank Officers, they understood that time would be better spent only bringing the matter to Committee in future if there were significant issues.

Councillor Bennett proposed that a report regarding the Housing Benefit Subsidy Claim Certification was only presented in future if significant issues were identified as part of the certification. This was seconded by Councillor Staniforth.

The Committee

RESOLVED

That a report regarding the Housing Benefit Subsidy Claim Certification would only be presented to Committee in the future if significant issues were highlighted

209. CHAIR'S ANNUAL REPORT TO COUNCIL

The Chair invited the Internal Audit Manager to present his report. He pointed out that CIPFA best practice was that an annual report was provided to Full Council by the audit committee of local authorities. His report summarised the meetings and activity of Arun's Audit & Governance Committee in the municipal year 2020/21 and it was requested that the Committee agree that it was presented to Full Council. As the 2020/21 Chair was no longer a member of the Council, with the agreement of the Committee it would be presented by the current Chair who was a member of the Committee through the period.

The recommendation was then proposed by Councillor Chace and seconded by Councillor Oliver-Redgate.

The Committee

RESOLVED

To endorse the content of the report and to recommend its presentation to Full Council by the Committee Chair.

210. COUNTER-FRAUD REPORT 2020/21

The Chair invited the Internal Audit Manager to present his report, who highlighted that the Audit & Governance Committee was responsible for the oversight of the Council's counter-fraud arrangements.

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The Internal Audit Manager explained that as part of the distribution for Government grants to local businesses for support during the pandemic, there had been mandatory requirements provided by the Department for Business, Energy & Industrial Strategy (BEIS) for pre- and post-payment checks to protect these funds against fraud and to ensure that they were received by the appropriate recipients. This had been a time-consuming exercise across several areas of the Council. This had been against a backdrop where Government had required funds to be distributed to qualifying businesses at pace, with multiple schemes and changing eligibility and requirements through the various lockdowns, tiered restrictions and re-opening periods since March 2020. Although final payments for the last remaining mandatory grant schemes must be made by 30 July 2021, the Additional Restrictions Grant Scheme of Discretionary Payments extended to March 2022, with payments now being made under allowable wider business support schemes as approved by Members at the Economic Committee.

There were no questions from Members.

211. INTERNAL AUDIT ANNUAL REPORT & OPINION 2020/21

The Chair invited the Internal Audit Manager to present his report, who highlighted that the Audit & Governance Committee had oversight on the work of internal audit and this annual report summarised the work of the section through 2020/21. Through the Covid-19 period, staff had been working to support other areas of the Council, such as on completion and scrutiny of financial returns and on grants checking. Because of this there was less true audit work undertaken in 2020/21 and CIPFA had provided a national instruction that where internal audit functions had been affected in this way then a limitation of scope comment should be applied to the audit opinion, covered on page 183. Whilst it was felt that overall governance and risk management had been covered through the period, there had been less work on the control environment, although no significant concerns had been raised by CMT/senior management in respect of their areas. CIPFA also recommended that self-assessments on both internal audit and the audit committee were maintained. These had been updated, discussed with the Chair and were presented for the Committee's information as Appendices 2 and 3.

There were no questions from Members.

212. REVISED INTERNAL AUDIT PLAN 2021/22

The Chair invited the Internal Audit Manager to present his report. He provided background to his report and explained at the February meeting the Committee had been presented with an outline audit plan reflecting the 2 Full Time Equivalent (FTE) staff available at that time, with the caveat that should there be any significant change then a revised plan would be provided. The senior auditor had moved within the Council from April 2021 and the revised plan now reflected the current 1 FTE. The focus would therefore be on mandatory and other key work pending the consideration of options for

resourcing the section going forwards for a decision by senior management. Although this effectively currently halved the amount of time available, there should still be more work undertaken on the control environment than in 2020/21 as the Covid-19 support grants, etc. work was winding down as we moved out of most of the restrictions.

There were no questions from Members.

213. PROGRESS AGAINST THE AUDIT PLAN

The Chair invited the Internal Audit Manager to present his report. He outlined that the report was a summary of work undertaken against the high-level audit plan.

This was noted by the Committee.

214. UPDATE ON THE COUNCIL'S USE OF POWERS UNDER THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

The Chair invited the Internal Audit Manager to present his report. He explained that it was a requirement of the Investigatory Powers Commissioners Office (IPCO) that the appropriate oversight body at the Council should be kept informed of the Council's arrangements in respect of the Regulation of Investigatory Powers Act (RIPA). There had been no use by the Council of powers under RIPA that would require the approval of a Magistrate in the 2020/21 municipal year.

There were no questions from Members.

The Committee noted that the Council did not make any use of its powers under RIPA in the 2020/21 municipal year.

215. INFORMATION / ADVISORY DOCUMENTS RECEIVED

The Chair invited the Internal Audit Manager to present this item. He summarised the Council participated in an annual fraud survey conducted by CIPFA and the most recent results had been published in its Fraud & Corruption Tracker Report. A link to this on their website was provided for Members. The Council monitored these reports for new fraud areas or trends.

216. WORK PROGRAMME

The Chair explained that the Audit & Governance Committee meeting on 7 October 2021 had been removed from the calendar prior to Committee noting the calendar dates, as it was thought this meeting would not be required. This Committee meeting date was now required to be reinstated as, in line with the Council's Constitution, the organiser of the Paghams Petition had asked for the Audit &

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Governance Committee to review how the Council had dealt with the petition. This would therefore be added to the Work Programme for the meeting on 7 October 2021.

Clarification was sought on the Pagham Petition being brought to the Audit & Governance Committee. It was confirmed by the Chair that this was for the Committee to review the processes, and to look into whether these processes had been followed correctly, and whether the Constitution had been appropriately applied. Details of the actual Petition and decision would not be discussed. The Monitoring Officer would provide a report, and the findings would be discussed at the Committee meeting on 7 October 2021.

It was noted that some Council Members had questioned whether it was appropriate to accept petitions that were moved as part of a planning application, which was something that needed to be discussed, and recommendations needed to be made on how petitions that touch on concern of planning application would be treated in future.

The Chair then Invited the Internal Audit Manager to present the Work Programme to the Committee. He explained that as has been advised by the Chair, the meeting of 7 October would now be reinstated for the Pagham Petition item, and as per the update from the external auditors at an earlier agenda item, a Special meeting would be added in January 2022 to consider the Accounts and the auditor's report. The date for this had yet to be agreed, but once finalised he would circulate an updated version of the workplan to members of the Committee. As decided earlier in the meeting, there would be an additional update on tenancy fraud at the February Meeting, and an annual report on this at the July meeting next year.

(The meeting concluded at 7.12 pm)