

AUDIT AND GOVERNANCE COMMITTEE

25 July 2023 at 6.00 pm

Present: Councillors Dr Walsh (Chair), O'Neill (Vice-Chair), P. Bower, Goodheart, Haywood, May, Oppler, Purser, Turner and Wallsgrove

177. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillor Jones.

178. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

179. MINUTES

The Minutes of the meeting held on 28 February 2023 were approved by the Committee. These would be signed at the end of the meeting.

180. ITEMS ON THE AGENDA THAT THE CHAIRMAN OF THE MEETING IS OF THE OPINION SHOULD BE CONSIDERED AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCE

There were no urgent matters for this meeting.

181. PUBLIC QUESTION TIME

No public questions had been submitted for this meeting.

182. START TIMES

The Committee

RESOLVED

That its start times for meetings for 2023/24 be 6.00pm.

183. MEMBERS' ALLOWANCES SCHEME – PROGRESSING THE NEXT REVIEW

Upon the invitation of the Chair, the Committee Services Manager introduced the report, explaining she was presenting this on behalf of the Group Head of Law & Governance and Monitoring Officer. Members of the Council's Independent Remuneration Panel were also in attendance.

The report outlined plans for the next review of the Members' Allowances Scheme which was now due as the last full review of the scheme had been undertaken and approved by Council in July 2019. An interim review had been undertaken by the Panel in November 2020 and reviewed the Special Responsibility Allowances (SRAs) of the Leader and Deputy Leader of the Council and Cabinet Members in preparing for the Council's move from a Leader and Cabinet form of governance to a Committee system. This review examined the SRAs that should be paid to the Service Committee Chairs and Vice-Chairs forming the structure. The recommendations approved by the Audit & Governance Committee were then approved by Council in January 2021.

To comply with The Local Authority Members Allowances (England) Regulations 2003, a review of an authority's Members' Allowances Scheme should be conducted at least every four years. As the Committee system had been in place since May 2021 and following the District Election held on 4 May 2023, it was timely to undertake a review of all allowances. The report set out the Terms of Reference for the Panel and the general principles that would be applied by it in undertaking a review. It highlighted in paragraphs 3.5 what the review would cover and at 4.8 a planned timetable for the review.

Members then took part in a question and answer session where the following points were raised:

- The Chair highlighted that he was aware that one Councillor (who was not a Member of this Committee) had suggested that the Panel be invited to review whether or not Members should be paid an SRA for a Committee they sat on that required training, when they had not yet completed that training.
- Members welcomed the review and the idea of comparing this with other Councils, particularly those with a Committee system.
- It was suggested the Panel look at whether Members of the Licensing Committee required to Chair Licensing Sub-Committee meetings should receive remuneration for this.
- One Member felt Member allowances were too high and this needed to be reduced, possibly by reducing the basic allowance or SRAs.
- Some Members felt that Councillors should only be allowed to claim one SRA, which was thought to be the standard for most councils. Other Members strongly disagreed with this and felt Councillors should be reimbursed for each role they carried out.
- It was asked whether a progress report could be brought to Committee before Christmas. The Chair explained there would instead be a seminar

for Members at the beginning of September with a presentation regarding the background to Member Allowances. The Panel were working to a tight timetable and had a lot of work to do.

- Paragraph 3.4 stated there would be many issues for the Panel to examine in detail in undertaking this review following the changes to the governance structure since the 2019 review, including Responsibilities for Functions of the Council's Committees. It was stated this should not lead to a large addition of expenses.

Having outlined any areas that it wished the Panel to review, the Committee noted the report and the approach to be taken by the Independent Remuneration Panel for its next review in terms of the timetable proposed.

184. ANNUAL GOVERNANCE STATEMENT 2022/23 AND CODE OF CORPORATE GOVERNANCE

Upon the invitation of the Chair, the Internal Audit Manager introduced the report, explaining the Annual Governance Statement (AGS) was a mandatory document which accompanied the Council's annual accounts. Along with the draft accounts for 2022/23, which had been published to the Council's website that day, it would be published on the Council's website and provided to the external auditors for review. This had been prepared with input from Officers and had been reviewed by the Corporate Management Team and signed by the joint interim Chief Executive Officers (CEOs) and the Leader of the Council. New or amended wording from the previous AGS were highlighted in the document. While it was generally a backward-looking document covering the period of the accounts, best practice was that significant governance changes occurring before the accounts were approved may also be included, hence reference had been made to the change in political control of the Council and also to the resignation of the CEO. This draft version was presented to the Committee for noting and the final version would be presented for approval by the Committee at a future meeting, along with the audited accounts. The process for the preparation of the AGS had been reviewed by the Southern Internal Audit Partnership (SIAP) and no issues had been raised. A copy of the Council's local Code of Corporate Governance had also been provided, to which no changes were proposed.

Members then took part in a question and answer session which are briefly summarised below.

It was noted that there had been a relaxation of timescales and the audit would be delayed until 2024, and asked whether that would have an impact on the way Arun delivered documents to the auditors, or whether it only the audit that would be delayed. The Internal Audit Manager explained that the target dates had been relaxed for Covid-19. These were not statutory deadlines and it had been agreed with the external auditors that Arun delay publication of the draft accounts from 31 May until 31 July, as the auditors would not be completing the audit within the recommended timescales. Arun were therefore required to publish a statement on the website to explain that publication of the accounts had been delayed. It was asked that this reflect that this was

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not the fault of Arun. The Internal Audit Manager confirmed this was clear on the notice published to the website.

The Annual Governance Statement on page 28 talked about clear channels of communication. One Member stated that in training they had been told that having a single entry for enquiries was best practice, and it was felt this would be easier both for Councillors and members of the public, as often people did not know who to ask for. The Internal Audit Manager explained there was a standard telephone line that went to the main switchboard if someone didn't know who they needed to get hold of. He believed the Culture Change Group were looking at values and potentially trying to get a more focused direction for this. It was asked that the culture change group look at this and take the request into consideration.

It was asked whether Arun should be putting pressure on the external auditors with a view to the audit being completed within the target deadlines. The Internal Audit Manager explained this was a national issue which had been covered in the Redman Revue, and was currently being considered by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Group Head of Finance and the CEOs had regular meetings with the external auditors, however there was not much that Arun could do about it.

Page 27 talked about being in breach of the regulator for social housing, and it was asked whether this was still the case. The Internal Audit Manager explained that the action plan on page 42 stated that it was anticipated the issues had been resolved and the Regulator would release the Council from the Regulatory Notice in 2023. He would make enquiries to establish whether this had happened and circulate an answer to Members.

Page 30 stated that there would be significant work required to reduce the budget deficit over the coming years, and it was asked whether any progress had been made regarding a plan to address this. The Chair explained that this was a very valid question, however as this was a backward-looking document, the question would be better asked at forthcoming meetings when progress reports would be brought to the Committee by the Group Head of Finance.

The Committee noted the draft version of the Council's Annual Governance Statement for 2022/23

185. COUNTER-FRAUD REPORT 2022/23

Upon the invitation of the Chair, the Internal Audit Manager introduced the report to Committee. The report summarised the Council's counter-fraud activity for the year. A more detailed update on the work on tenancy fraud undertaken by Housing staff had been provided to the Committee at the February meeting. The Council's fraud framework was currently being reviewed by SIAP and findings and recommendations for improvement would be presented for consideration by Officers and reported to a future meeting of the Committee. As noted in the report, from 2020 to 2022 a

considerable amount of work, primarily within the Revenues section in addition to their main role, had been undertaken in order to prevent fraud in the distribution of over £50M of Government funds for Covid business support grants. In 2022 and 2023, the Revenues section had again been instrumental in processing and checking almost £9M of the various energy support payments as required by Government.

Members then took part in a question and answer session where the following points were raised:

- Members thanked the Internal Audit Manager for the report, and stated that all Officers working towards the outcome of this report must be commended, as it had saved the Council a lot of money.
- It was asked whether the estimated financial savings to the Council of around £1.3M were all savings for Arun. The Internal Audit Manager explained that this was the nominal value placed on the recovery of the 10 properties. It did not mean the Council had gained this value in cash.

The report was noted.

186. TREASURY MANAGEMENT ANNUAL REPORT 2022/23

Upon the invitation of the Chair, the Internal Audit Manager introduced the report, explaining that he was presenting this on behalf of the Group Head of Finance who unfortunately had been unable to be present at the meeting. He highlighted that page 75, table 4.2 showed the Qatar National Bank and First Bank of Abu Dhabi deposits had now matured. Both the CCLA and Standard Chartered investments were classed as sustainable, something that would be given more consideration in the future. Page 85, table 4.3 showed there had been a significant reduction in the amount of overall investment available across the years, which had reduced from £68M to £43M. This was as a result of a significant amount of grant funding, such as Covid-19 grants, being returned to the Government in 2022/23. Page 86, table 4.5 showed the Council had outperformed its investment budget and investment return by over £1M, which was partly due to good management of Treasury investment, and partly due to unexpected interest rises.

Members then took part in a question and answer session where the following points were raised:

- It was observed that page 81 commented that the Council currently had no external debt other than that taken out for the Housing Revenue Account, which was a separate financial and administrative function from the rest of the Council.
- It was asked how many investments were locked in for a set time, and what these timeframes were, and whether the Council would be able to fund unforeseen expenses. The Chair explained that page 85, table 4.4 detailed how many investments were longer than one year, and how many were less, showing the vast majority were less than one year. He explained there were also reserves held, and he felt the Council's financial position was sound. If further information was required regarding this, Members should contact the Internal Audit Manager, who would obtain answers from the Group Head of Finance.

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- Support was offered for Arun considering ethical investments.

The recommendations were proposed by Councillor Wallsgrove and seconded by Councillor Purser.

The Committee

RECOMMEND TO FULL COUNCIL that

1. the actual prudential and treasury indicators for 2022/23 contained in the report be approved
2. the annual treasury management report for 2022/23 be noted
3. the treasury activity during 2022/23 which has generated interest receipts of £1,455,650 (2.35%); budget £370,000 (0.84%) be noted
4. the addition of Handelsbanken Plc (Fitch rating AA, F1+) and Natwest Markets Plc (NRFB–Non Ring Fenced Bank) (Fitch rating A+, F1) to the 2023-24 treasury management strategy, be approved
5. as agreed at Audit & Governance Committee on 28 February 2023, that the Qatar National Bank and First Bank of Abu Dhabi have been removed from the counterparties list in the Council's Treasury Management Strategy, be noted

187. INTERNAL AUDIT ANNUAL REPORT & OPINION 2022/23

The Chair welcomed Iona Bond, Senior Audit and Counter Fraud Manager, from Southern Internal Audit Partnership (SIAP), who then presented the report to the Committee. This was the Annual Report and Opinion for 2022/23, which summarised the internal audit activity across a range of Arun's functions during the year. She highlighted that sections 1-3 (Page 105 – 107) of the document contained background to the audit; section 4 (Page 108) provided the overall annual opinion for the Council, reflected in the table towards the bottom of page 108. Overall, they were able to provide a 'reasonable' audit assurance opinion for the purposes of the report, which was good; section 5 (page 109) provided a summary of work in the areas of Risk Management, Control and Corporate Governance, which framed the remit in which they placed the annual assurance opinion; pages 111-114 detailed the four areas of audit review during the course of 2022-23, which resulted in a limited assurance opinion; page 115 detailed the management actions, and a statement that SIAP were satisfied with these actions; SIAP had also completed two pieces of work on the irregularity of procurement, which centred around following of procurement rules. Both of those reports were currently with management and any further update would be provided through the progress report to Committee; section 11 thanked Arun Officers and staff who had all been engaged with the process; pages 118 – 125 set out each of the completed audit areas with details of

scope and key areas for improvement identified; page 125 listed all the changes to the plan made during the year.

The Chair thanked the Senior Audit and Counter Fraud Manager for her and her team's work on this, and he also thanked the Arun Officers who had been engaged throughout the year. Members were reminded if they had any questions regarding the exempt appendix, they would need to move into exempt business prior to that. Members then took part in a question and answer session as summarised below.

One Member stated he wished to ask a question regarding the exempt appendix.

Page 111 detailed an excess in spending on agency staff and the oversight of this, it was asked whether SIAP recommended measures to Officers to ensure they could avoid this in the future. The Senior Audit and Counter Fraud Manager explained SIAP no longer came up with a series of recommendations, however they did come up with a series of observations which drew out where the areas of weakness within the particular area were. This prompted managers to review and take ownership of actions they believed were necessary to mitigate or cancel out those risks. SIAP would then review these actions to ensure they were satisfied that those weaknesses were being managed. This would also be brought back to the Audit & Governance Committee. The Internal Audit Manager confirmed that the findings of the agency audit were on the agenda of the Corporate Management Team and the Group Head of Organisational Excellence, and they were currently liaising with procurement advisors at Hampshire County Council to identify a framework arrangement whereby they could obtain agency staff in a better way.

There was concern around procurement in general and it was asked whether this was being looked at as a whole or just in relation to agency staff. The Senior Audit and Counter Fraud Manager explained that the management were aware that procurement was an area that needed looking at more closely in terms of ensuring compliance with the required levels.

Page 121 under Climate Strategy noted sound framework of control was found to be in place with some observations for improvement, and it was asked where the observations could be found. The Senior Audit and Counter Fraud Manager explained the observations and management actions rested with the managers of those service areas. The Committee would receive a high level summary and update on the state of implementation of those actions. Where a management action was overdue and this was high priority, the Committee would receive further detail.

As one Member had indicated he wished to speak regarding the exempt appendix, with the agreement of the Committee, the Chair paused discussion of this Item, which would resume following the Work Programme Item in exempt session.

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188. CORPORATE RISK REGISTER UPDATE

Upon the invitation of the Chair, the Finance and Risk Manager introduced the report. Since the Corporate Risk Register had been brought to Committee in November, the risks had been reviewed frequently by the Corporate Management Team. Appendix 3 on page 137 contained a summary of the Corporate Risk Register, which captured the changes that had taken place as a result of the review. Appendix 4 on page 138 contained the full updated Corporate Risk Register, which Members were asked to consider and note.

The Chair reminded Members that if they had any questions regarding the exempt appendix, they would need to move into exempt business prior to that. Members then took part in a question and answer session where the following points were raised:

- Page 140 talked about resilience to staff structure and attracting and retaining staff. It was felt more should be done to accommodate young working parents such as childcare facilities or flexible working around school runs. It was asked that this be referred to the Corporate Management Team for consideration.
- There was concern about the amount of red risks on the reports, and it was asked how this compared to previous reports. The Finance and Risk Manager explained that since the new risk management framework had been introduced, they had reviewed all risks and the way risks were assessed was different to in previous reviews, so a like-for-like comparison could not be made.
- It was felt positive that page 137 showed the number of the net risk levels were mostly in amber not in red. The Finance and Risk Manager confirmed this was reflective as it took into consideration the controls that were in place.
- One Member observed that page 145 noted the risk of development being granted on appeal, and felt there was nothing Arun could do about this until the Government had ended the 5 year plan for housing. The Chair explained this was one of the reasons why a review of the Local Plan had been commenced, and it was hoped this would help to mitigate that risk.
- One Member stated he had questions that covered the exempt appendix.

As one Member had indicated he wished to speak regarding the exempt appendix, the Chair paused discussion of this Item, which would resume following discussion of the Internal Audit Annual Report & Opinion 2022/23 Item in exempt session.

189. WORK PROGRAMME

The Committee noted the Work Programme.

190. EXEMPT INFORMATION

Having been proposed by Councillor Oppler and seconded by Councillor Turner, the Committee

RESOLVED

That under Section 100A(4) of the Local Government Act 1972, the public and accredited representatives of newspapers be excluded from the meeting for the following items of business on the grounds that they may involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act by virtue of the paragraph specified against the items.

191. INTERNAL AUDIT ANNUAL REPORT & OPINION 2022/23
[EXEMPT - PARAGRAPH 7 - INFORMATION RELATING TO ANY ACTION TAKEN OR TO BE TAKEN IN CONNECTION WITH THE PREVENTION, INVESTIGATION OR PROSECUTION OF CRIME]

Following discussion the Committee

RESOLVED

That the annual internal audit report and opinion for the year 2022-23 be approved

192. CORPORATE RISK REGISTER UPDATE
[EXEMPT - PARAGRAPH 7 - INFORMATION RELATING TO ANY ACTION TAKEN OR TO BE TAKEN IN CONNECTION WITH THE PREVENTION, INVESTIGATION OR PROSECUTION OF CRIME]

The Committee highlighted the risk of business continuity in the event of a cyber-attack and requested that the Corporate Management Team progress any recommendations in relation to this as rapidly as possible.

The Committee noted the revised Corporate Risk Register.

(The meeting concluded at 7.41 pm)