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AUDIT & GOVERNANCE COMMITTEE

28 February 2023 at 10.00 am

Present: Councillors Clayden (Chair), Chapman (Vice-Chair), Bennett, Brooks, Chace, Oliver-Redgate and Wallsgrove

716. APOLOGIES

Apologies for absence had been received from Councillors Goodheart and Oppler.

717. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

718. MINUTES

The Minutes of the meeting held on 29 November 2022 were approved by the Committee. These would be signed at the end of the meeting.

719. 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

The Chair confirmed that there were no urgent matters for this meeting.

720. PUBLIC QUESTION TIME

The Chair confirmed that no questions had been submitted for this meeting.

721. MEMBERS' ALLOWANCES - EXTENSION OF APPOINTMENTS FOR THE INDEPENDENT REMUNERATION PANEL

Upon invitation of the Chair, the Group Head of Law & Governance introduced the report, which sought the Committee's approval to extend the terms of office for all five members of the Independent Remuneration Panel (IRP) until 31 March 2024. The IRP were appointed to recommend Members' allowances to Full Council. Officers had also noticed a gap in the Constitution, which was set out in Paragraph 4.3. It was clear from wording in the Constitution that the intention had been that the appointment of Members of the IRP, and any removal of Panel Members, was to be delegated to the Chief Executive. Members were asked to recommend these changes, as set out in Paragraph 4.5 of the report, to the Constitution Working Party.

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Members then took part in a question-and-answer session and the following points were made:

- What circumstances may arise that would require the Chief Executive to remove an IRP Member? The Group Head of Law & Governance gave an example that a Member of the Independent Remuneration Panel may not be a Councillor, so if they became a Councillor during their term, they would need to cease their role on the IRP.
- Could the Committee extend the term for a further 3 years? The Group Head of Law & Governance explained that the IRP should be refreshed every 3 years, so it would be important to go through the process of reappointing the Panel.

The recommendations were proposed by Councillor Chace and seconded by Councillor Bennett.

The Committee

RESOLVED

That they agree to extend the terms of office for all five members of the Independent Remuneration Panel until 31 March 2024; and

RECOMMEND TO THE CONSTITUTION WORKING PARTY

That it considers recommending to Full Council that an additional delegation be granted to the Chief Executive (regarding appointments to the Independent Remuneration Panel) as per the proposed wording set out at Paragraph 4.5 of the report.

722. AUDIT RESULTS REPORT

The Chair invited the Associate Partner, Kevin Suter and the Audit Manager, James Stuttaford, from Ernst & Young LLP to present the Audit Results Report. They explained the purpose of the report was to set out the key issues from their external audit, therefore Members could take a degree of assurance on whether or not to approve the Council's accounts. Their audit work was substantially progressed, and they had been able to draw sufficient conclusions to be able to present the report to Committee. For various reasons they had been unable to complete their review procedures in advance of the meeting, so they would not be in a position for the audit to be signed off today. This meant there would be an amended Officer recommendation for the next report. Key areas of the document were highlighted to Members.

Members then took part in a question-and-answer session and the following points were made:

- It was noted that any uncorrected misstatements greater than £105,000 were reported, but were those less than this figure taken into account? The Associate Partner of Ernst & Young LLP explained that they kept a close eye on this and there was a running total.
- With regard to assets that had been overvalued, would Officers be made aware? It was explained the valuation judgment was at a point in time and was subject to change as valuations fluctuated and contracts changed, therefore this did not mean the decision to purchase was wrong. The Group Head of Finance and Section 151 Officer explained that the valuations changes were not material, and also did not affect the Council's cash until it came to sell the asset.

This was an item for information only.

723. ANNUAL STATEMENT OF ACCOUNTS 2021/22 AND LETTER OF REPRESENTATION

Upon invitation of the Chair, the Group Head of Finance and Section 151 Officer introduced the report. He explained the three recommendations and that the third recommendation had changed slightly, and now included the words 'subject to the completion of the final audit procedures, with any resulting changes delegated to the Section 151 Officer, in consultation with the Chair of the Audit & Governance Committee, for resolution.'. This was, as mentioned by the Associate Partner from Ernst & Young LLP in the previous item, because the audit was not yet complete. He explained the Council expected to get an unqualified opinion, which was a positive thing and something all Councils wanted, as otherwise reputational damage could be done. The Letter of Representation was a broad statement written by management to the auditors, which said that management took responsibility for the accuracy of the accounts, and gave the auditors confidence in the accounts. The statement of accounts were required by law. They were not the same as the management accounts which reported the Council's performance against the budget. The Statement of Accounts were in compliance with accounting rules and regulations.

Key points were highlighted including the Expenditure and Funding Analysis statement on page 90 of the report and the Comprehensive Income and Expenditure statements on page 91 of the report. The comparator figures had been restated to reflect the change from the Cabinet to the Committee structure of the Council. There were a few differences in the accounts, which was not unusual, and they had fallen below the material threshold so had not been changed.

There were no questions from Members.

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

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The Committee

RESOLVED that

- 1) the findings of the Ernst & Young LLP Audit Results Report (previous item on the agenda) be noted;
- 2) the Management representation letter on behalf of the Council in appendix 1, be approved; and
- 3) the Statement of Accounts for the financial year ended 31 March 2022 contained in appendix 2 be approved, subject to the completion of the final audit procedures, with any resulting changes delegated to the Section 151 Officer, in consultation with the Chair of the Audit & Governance Committee, for resolution.

724. FINAL ANNUAL GOVERNANCE STATEMENT 2021/22

Upon invitation of the Chair, the Internal Audit Manager introduced the report, which presented the final Annual Governance Statement for 2021/22. This was a mandatory document required to accompany the audited Annual Accounts. The draft Annual Governance Statement had been noted by the Committee at its July 2022 meeting, and had been presented to external audit who had raised no issues. The Annual Governance Statement covered the period of accounts from April 2021 – March 2022. There had since been significant inflation for the year 2022-23, which would be reflected in the Annual Governance Statement for the next year, which would be presented to Committee at its next meeting.

There were no questions from Members.

The recommendations were proposed by Councillor Chace and seconded by Councillor Bennett.

The Committee

RESOLVED

That the final version of the Council's Annual Governance Statement for 2021/22 be approved

725. UPDATE ON APPOINTMENT OF EXTERNAL AUDITOR

Upon invitation of the Chair, the Internal Audit Manager introduced the report which set out the current position regarding the appointment of an external auditor to the Council for the 5-year period from 2023/24 to 2027/28. Public Sector Audit Appointments (PSAA) Ltd had now completed the appointment exercise, and Officers had been informed that Ernst & Young LLP would be appointed again to cover this period. Fees had yet to be agreed.

There were no questions from Members.

The Committee noted the report.

726. INTERNAL AUDIT CHARTER 2023/24

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. The Internal Audit Charter was a formal document that defined the purpose of internal audit activity, the authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Public Sector Internal Audit Standards required the Charter to be reviewed and approved annually. There were no significant changes to the document as presented last year.

There were no questions from Members.

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

The Committee

RESOLVED

That the Internal Audit Charter be approved

727. INTERNAL AUDIT ANNUAL PLAN 2023-24

The Chair invited Iona Bond, Senior Audit and Counter Fraud Manager, from Southern Internal Audit Partnership (SIAP), to present the report to the Committee. The Internal Audit Plan provided the mechanism through which the Chief Internal Auditor could ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. This report presented the plan for 2023/24 for approval by the Committee. In drawing up the plan, the Senior Audit and Counter Fraud Manager from Southern Internal Audit Partnership had met with all Group Heads, Directors and the

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Chief Executive to go through the proposals for the year. It was envisaged there would be some changes over the course of the year to the Plan, which would be done in consultation with the Senior Management Team and would be brought to the Committee via the regular progress reports.

There were no questions from Members.

The recommendation was proposed by Councillor Chace and seconded by Councillor Bennett.

The Committee

RESOLVED

That the Internal Audit Plan 2023-24 be approved

728. INTERNAL AUDIT PROGRESS JANUARY 2023

The Chair invited Iona Bond, Senior Audit and Counter Fraud Manager, from Southern Internal Audit Partnership (SIAP), to present the report to the Committee. The report outlined the progress of the Council's Internal Audit service against the approved Internal Audit Plan for 2022/23 from 1 April 2022. Very good progress was being made and they were on track to substantially deliver the revised plan by the end of March, and all individual assignments would be completed in time for the annual report that would be presented to the Committee in July. Regarding the analysis of 'Live' audit reviews, there were very few management actions left to be completed. There had been no reports published concluding a "Limited" or "No" assurance opinion to date for 2022/23. The rolling work programme was looking very good.

The Vice-Chair was pleased to see that action was being taken on Cyber Security, and that there was nothing vitally urgent around health and safety. There were no questions from Members.

The Committee noted the report.

729. TREASURY MANAGEMENT - STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24

Upon invitation of the Chair, the Senior Accountant (Treasury Management) introduced the report, which was the Annual Treasury Management Strategy relating to the 2023/24 activities. This required the approval of Full Council and was a mandatory requirement under the Local Government act 2003. The Annual Treasury Management Strategy was the management of the borrowing, investments and cash flows, and the

effective control of the risks associated with those activities; security, liquidity and yield in that order. The main changes were due to the new treasury management and prudential codes introduced in December 2021.

The Senior Accountant went on to highlight a few key areas from the body of the report as follows:

- 1.2.2 (page 269-270) - there would be 4 reports per year starting from 2023/24. The additional report would not be required to go to Full Council but was for scrutiny in the September Committee meeting.
- 1.4 (page 271-272) - with the new codes there was even more emphasis on training for Members and Officers responsible for Treasury Management. On 22 June 2023 a 1.5 hour training session would be taking place, and work was being done to develop a self-assessment form for Members to complete to assess their knowledge and skills.
- 2.3 (page 275-276) - an additional performance indicator, Liability Benchmark, had been introduced as a result of the new codes. A liability benchmark below the current maturity profile, as was the case for Arun, highlighted a no additional borrowing need due to the level of investments.
- 3.7 (page 286) - there were potential new options for borrowing if required.
- 4.1 (page 288-289) - as a result of the change in accounting standards for 2022/23 under IFRS 9, override, this had been extended to 31 March 2025 which impacted any losses or gains, therefore they would not be taken to the General Fund in 2023/24.
- 4.2 (page 289) - Environmental, Social and Governance (ESG) was a new area as a result of the code. These areas would be considered and work was being done to assess each counterparty.
- 4.5 (Page 294) - listed all changes as a result of the new codes. This also contained the addition of 2 counterparties and the removal of 1.
- 4.6 (Page 295) – The Link Group Benchmarking Club showed Arun's returns were just above the upper returns guidelines, and were performing well compared to other councils.

Councillor Wallsgrove felt Abu Dhabi should be removed from the list of counterparties which she said was due to their use of child labour, investments in palm oil and paper products, their failure to cut all reduction on the Paris Agreement on Climate Change and their government committing human rights violations. She felt Arun District Council should not be investing in this kind of bank. She Proposed an amendment to recommendation 2) which was that Abu Dhabi be added to the list of Removals of Counterparties. This amendment was seconded by Councillor Bennett.

The Group Head of Finance and Section 151 Officer explained Officers worked with the treasury management advisors for advice, which was why Abu Dhabi was on the list. He explained Members were able to remove Abu Dhabi from the list, but as a Council the priority was to look at Security, Liquidity and Yield. Members should be aware that they may not be able to achieve a better investment rate.

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The Chair invited debate on the amendment and one Member made the point that they felt security of investments was important, but it was a comparatively small amount invested, and it was felt there were more ethical investments and the amendment was supported.

The Secunder fully supported this amendment and felt the human rights issues should take priority. The Council were investing taxpayer's money and it was important they were looking at investing in not only financially safe areas, but safe areas in terms of the human population as well.

Councillor Wallsgrove, as the Proposer, explained the Council should be looking after people's human rights, and the abuse some people faced was horrific.

A recorded vote on the amendment was requested. Those voting for were Councillors Bennett, Brooks, Oliver-Redgate and Wallsgrove. No Councillors voted against. Councillors Chace, Chapman and Clayden abstained from voting. The vote was therefore declared CARRIED

Turning to the substantive, the Chair invited questions from Members and the following points raised:

- It was understood there was still £6m invested with Qatar National Bank, and £1m with Abu Dhabi, would these be withdrawn and money returned to Council funds? The Group Head of Finance and Section 151 Officer would provide a written response to this after the meeting.
- One Member pointed out these were fixed term investments and it was not expected they would be withdrawn earlier and investments lost.

Councillor Bennett believed it was possible to withdraw from these investments early, and he Proposed an amendment to the recommendations, which was that a fourth recommendation be added. This would be as follows 'Officers be requested to enquire into the early withdrawal of all investments in Qatar National Bank and First Abu Dhabi Bank and report back to the Audit & Governance Committee at its next meeting with the findings.'

This amendment was seconded by Councillor Wallsgrove, who expressed the view that the Council should be looking at the morals of the banks being investing in, and felt it was not right to invest public money in companies that abused human rights.

A brief debate took place in which one Member felt this would be very difficult to support, as he understood why the Council would want to remove these counterparties from future investments, but did not feel it was right to incur fees using Council Tax payer's money to withdraw early. Another Member expressed the view that nothing would happen until the report had come back, and so it was felt a reasonable request.

The Group Head of Finance and Section 151 Officer confirmed that this amendment was that a report be brought back to the Audit & Governance Committee with information around the charges and implications of early withdrawal from

investments with the Qatar National Bank and Abu Dhabi, some of which would have already matured by the next meeting.

A recorded vote on the amendment was requested. Those voting for were Councillors Bennett, Brooks, Chapman, Clayden, Oliver-Redgate, Wallsgrove. No Councillors voted against. Councillor Chace abstained from voting. The vote was therefore declared CARRIED

The substantive recommendations were proposed by Councillor Bennett and seconded by Councillor Oliver-Redgate.

The Committee

RESOLVED

That Officers be requested to enquire into the early withdrawal of all investments in Qatar National Bank and First Abu Dhabi Bank and report back to the Audit & Governance Committee at its next meeting with the findings.

RECOMMEND TO FULL COUNCIL that

1. The Treasury Management Strategy Statement for 2023/24 to 2025/26 be approved and adopted.
2. The Annual Investment Strategy for 2023/24 to 2025/26, including the addition of two new counterparties and removal of two, be approved and adopted;

Additions:

Australia & New Zealand Banking Group (ANZ)
National Bank of Canada

Removal:

Qatar National Bank
Abu Dhabi

3. The Prudential Indicators within the TMSS and AIS for 2023/24 to 2025/26 as contained in appendix 1 and the body of the report, be approved.

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730. APPROVAL OF ACCOUNTING POLICIES 2022/23

Upon invitation of the Chair, the Group Head of Finance and Section 151 Officer introduced the report. He explained that the Committee was requested to approve the accounting policies that would be applied to the Statement of Accounts 2022/23. There were no major changes to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Accounts Code of Practice for 2022/23, and therefore no changes to the Council's accounting policies from 2022/23.

There were no questions from Members.

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

The Committee

RESOLVED

That the accounting policies that will be applied to the Statement of Accounts 2022/23, be approved.

731. PROGRESS UPDATE ON HOUSING TENANCY FRAUD

Upon invitation of the Chair, the Neighbourhood Services Manager introduced the report. She explained that the calculations around how much a Council was saving each time a property was identified and put back into the correct use, had increased to £93,000. The majority of these properties were coming to attention due to concerns around illegal subletting, and these were often found in an abandoned state. She then explained the figures to the Committee. The Housing Tenancy Fraud Officer was fully integrated within the Housing Officer team, and Housing Officers were all very aware of the potential for fraud. The total savings to the Council were very large, and recovering one property more than covered the Housing Tenancy Fraud Officer's salary, so the value to the Council of the service, was clearly evidenced.

The Chair felt this was a very positive report, and asked that congratulations be given to the Housing Tenancy Fraud Officer for her great work. He felt that taking homes from people that did not need them or were not eligible for them, and giving them to people in desperate need had far more benefits than just the cost element. The most important thing was that people that needed the homes were being given them. He asked whether they monitored subletting and overcrowding.

The Neighbourhood Services Manager confirmed that any suspicious activity where it was believed the occupants were not the original occupants or the property being used by occupants they were not suitable for, would raise alarm and this would be investigated. She explained there were far more properties this year being brought

back into use for the benefit of the community than in previous years, which was largely down to the vigilance of the Officers.

One Member asked the average turn around time for getting a property back into use. The Neighbourhood Services Manager explained the average period from receiving the keys back to re-letting the property was around 73 days, which was reflective of the amount of work required to the properties when they came back to the Council.

Other Members expressed their praise for such a positive report and great work.

The Committee noted the report.

732. WORK PROGRAMME

The Committee noted the Work Programme.

At the end of the meeting the Chair and Vice Chair reflected that having sat on the Audit & Governance Committee since 2007, which they had enjoyed, this was to be their last meeting on the Committee. They thanked the Audit Team, the Finance department and Committee Services Team for all their help over the years and would miss sitting on the Audit & Governance Committee.

(The meeting concluded at 11.22 am)

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