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AUDIT AND GOVERNANCE COMMITTEE

30 November 2023 at 6.00 pm

Present: Councillors Dr Walsh (Chair), O'Neill (Vice-Chair), Blanchard-Cooper (Substitute for Oppler), P. Bower, Haywood, Jones, May, Purser, and Wallsgrove

[Councillor Jones was absent from the Meeting for discussion of Items 437 - 443]

437. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors Goodheart, Oppler, Turner. Cllr Jones had also sent apologies that he would be late to the meeting.

438. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

439. MINUTES

The Minutes of the meeting held on 28 September 2023 were approved by the Committee. These would be signed after the meeting.

440. 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.

441. PUBLIC QUESTION TIME

No public questions had been submitted for this meeting.

442. 2021/22 EXTERNAL AUDIT PROGRESS UPDATE

The Chair welcomed James Stuttford, Audit Manager for Ernst & Young LLP to the meeting. He gave a verbal update to the Committee explaining that they were very near to completing the audit, which they expected to be complete by the next meeting of the Audit & Governance Committee. Additional work had been required following the 2022 Pension Fund Evaluation, and it had been agreed that amendments would be made to the net pension fund asset on the balance sheet. Audit work remained ongoing

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in the area of Capital Grants Receipts in Advance, as there had been a difference of opinion with regards to the classification of items recorded. Ernst & Young LLP had concluded that the majority of those items should be recognised and reclassified to the Capital Grants Unapplied Reserve. Discussion with the finance team remained ongoing and the matter was due to be discussed again the following day, with the expectation that agreement could be reached. There was also small amounts of evidence required to support capital valuations, which was being worked on by the Estates Team. Once those areas were completed, Ernst & Young LLP would progress to the closing stages of the audit, including agreeing the amended version of the financial statements prior to signing.

There were no questions from Members.

The Group Head of Finance and Section 151 Officer reassured Members that the changes currently being discussed with Ernst & Young LLP, would not affect the reusable revenue reserves balances that had been reported to Policy & Finance as a matter of course throughout the financial year.

443. 2022/23 EXTERNAL AUDIT UPDATE

The Chair welcomed Kevin Suter, Associate Partner from Ernst & Young LLP to the meeting. He gave a verbal update to the Committee, explaining the situation nationally regarding a backlog of audits in the local government sector, which was not unique to Arun or to Ernst & Young LLP. He explained that the recently published (on 24 November 2023) Select Committee report provided a good summary of the background to all the issues. This was something the Government were looking to address, and guidance was awaited regarding a possible system reset, where a date may be given by which all non-complete audits would be stopped, then the auditors would move to report anyway, which would be some sort of modified opinion on the accounts. Whilst waiting for the guidance Ernst & Young LLP had been working to clear as many historic audits as possible. They had prioritised pension fund audits and value for money responsibilities, which they understood would continue as normal. Ernst & Young LLP were not currently able to give a statement on what would happen with the 2022/23 Arun District Council external audit, as depending on when and if a reset date was given, they may not be able to complete this audit at all. He explained that they were working with other stakeholders such as the National Audit Office and Chartered Institute of Public Finance and Accountancy's (CIPFA), who set the requirements of the accounting code, and were also looking at making changes to their various responsibilities so the whole system could come together and get back to meeting the targets. As soon as further information became available, Ernst & Young LLP would be liaising with Arun.

The Chair asked what the main reason for the build-up of audits was, and whether this was due to Covid-19, working from home or lack of resources either centrally or in local government. The Associate Partner explained the backlog of completed audits was due to a combination of factors, the problem was starting to build prior to covid mainly due to lack of resources, which was exacerbated during Covid-19

as staff were diverted from producing accounts to other activities such as distributing grants, and local authorities, and external auditors had not been able to catch up.

Members were then given the opportunity to ask questions. It was asked how this practically effected Arun's finance department, and whether it would create a backlog for them to complete. The Group Head of Finance and Section 151 Officer explained they had sympathy for Ernst & Young LLP, however clarified that although the accounts were put onto the website slightly late, their working papers were in good order and had been available for audit for several months, so the resourcing issue mentioned by Associate Partner from Ernst & Young LLP did not apply to Arun. He explained if Ernst & Young LLP had to complete a full 2022/23 audit, this would inevitably be a lot of work for the finance team as, their assistance would always be required by the auditors to complete the audit.

The Chair sought clarification that with such a national backlog, the aim of national government would be to simplify the process and not increase the complexity. The Associate Partner hoped no more complexity to the accounts would be added whilst they were trying to work through the backlogs, and also long-term, and he reiterated that CIPFA, who set the accounting code of practice, were currently looking at what measures could be put in place to simplify this in the short term.

The Section 151 Officer added that over the years, the complexity and size of local authority accounts had greatly increased and this would inevitably make it much more difficult to clear audit backlogs under the current circumstances.

One Member asked whether Artificial intelligence would speed up the process. The Associate Partner believed this would be the case in the future, however this concept was only in the very early stages at the moment.

The Committee noted the report.

444. INTERNAL AUDIT PROGRESS REPORT SEPTEMBER 2023

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 outlined the progress of the Council's Internal Audit service against the approved Internal Audit Plan for 2022/23 from 1 April 2023, up to the end of September. She highlighted key points from the Internal Audit Progress Report. Good progress had been made on the audit plan, and they were almost at the halfway point, which was pleasing. The summary of live audit reviews showed those reviews where management actions were yet to reach their implementation date, and those with management actions running overdue. In relative terms the number of outstanding actions across work being done at Arun was relatively small. Since the last progress report, the only further management actions that were overdue were on Accounts Receivable, Homelessness and Business Continuity. Regarding Homelessness, there were lots of actions to be done in a short space of time and hard work been done which resulted in only one running overdue. The outstanding actions under Accounts Receivable and

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Debt Management were due to process issues and the updates needed to be reviewed by relevant Committees, but the updates had been made. Annexe one showed further information regarding the high priority overdue actions. Business Continuity showed a number of overdue management actions, however very good progress had been made. On reflection she felt the target date for completing these management actions had been optimistic. The Senior Audit and Counter Fraud Manager did not have any concerns around the overdue management actions at this stage.

Section 7 which was the rolling work programme, showed the progress being made. The Senior Audit and Counter Fraud Manager updated Committee that the review of non-domestic rates (NNDR) showing in the finance section had now been finalised and a draft report on the medium term financial planning process audit, had been sent to Officers. In relation to all Quarter 3 audits, all had now been scoped. Overall, she felt Arun were in a very good position and would be meeting with the Corporate Management Team the following week, as she did at the start of each quarter, to see if any adjustments needed to be made to the plan. There had been very few adjustments made to the plan so far this year which was very pleasing.

The Chair summarised there was no cause for concern in the work carried out so far and invited questions from Members.

Debt Management on page 20 stated the Constitution would need to be changed, which was in progress, it was asked how far had this got? The Group Head of Finance and Section 151 Officer explained that in the Constitution there were some inconsistencies in the amounts to be written off, and the delegated authorities. The debt write off policy first needed to be approved by the Policy and Finance Committee. Once this had been done a report could be taken to the Constitution Working Party to iron out the inconsistencies. This would satisfy the recommendations of the audit.

It was asked why the IT Disaster Recovery Planning had been deferred to the early part of 2024/25, as shown in Section 8 of the appendix. The Senior Audit and Counter Fraud Manager from SIAP explained that SIAP had experienced long-term sickness within the technology team, which had therefore restricted their capacity to deliver some of the technology audits, so it had been agreed with Arun this review would be pushed back one quarter. The reason this was felt appropriate was that the Corporate Business Continuity Planning Audit finalised at the beginning of 2023/24, touched on elements of Information Technology Disaster Recovery Plan.

The Committee noted the report.

445. TREASURY MANAGEMENT – INTERIM REPORT 2023/24

Upon the invitation of the Chair, the Group Head of Finance and Section 151 Officer introduced the report. He explained he was presenting this on behalf of the Senior Accountant (Treasury). This mid-year report had been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and covered the activities to 30 September 2023. It enabled the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

Investment income continued to perform well, with an expected investment income of £460k over budget. Interest rates remained high, however they were expected to reduce in due course. The Council were also due to repay unused energy support grants, which the Government gave to Councils in advance to provide households with financial support during the financial crisis. This money had been invested, thus increasing the Council's investment returns, but the next major repayment of money was due in 30 days' time.

Arun still had no external borrowing outside of the Housing Revenue Account. The Group Head of Finance and Section 151 Officer highlighted pages 38-40, which showed the prudential and treasury indicators. The Capital Finance Requirement (CFR) was the amount of capital expenditure that needed to be funded through borrowing. The CFR was set out on page 38, and the level of borrowing (table 4.4 on page 37) showed actual borrowing to be far less than the CFR figure. This meant Arun that had 'under borrowed' which was a good thing, because it meant that it was able to fund capital expenditure through balances such as energy payment grant money, capital tax precepts, business rates, which Arun could take advantage of whilst the money was in their bank account. Under borrowing negated the need to take out new borrowing, and was not unusual for local authorities to do. Arun had a very robust cash flow forecast model. Page 39, table 5.6 explained the borrowing limits. Arun had 2 borrowing limits which the Council were statutorily obliged to set. The limits were down to the Council to decide. These were the Operational borrowing limit, which was the maximum amount of borrowing that the Council would operate within and the Authorised borrowing limit, which gave the Council some headroom should it be required. Officers were not permitted to allow borrowing to exceed this limit. Arun was well below the Operating borrowing limit, which represented a good position for the Council. He then highlighted section 6 starting on page 40, which gave a general economic update.

Members were then given the opportunity to ask questions. Clarification was sought on the 14.8 million figure under Net borrowing in the table on page 39. The Group Head of Finance and Section 151 Officer explained this figure was the difference between total borrowing and investments, so our net position was that we had more investments than we were borrowing.

It was asked where the money from investments would go. The Group Head of Finance and Section 151 Officer explained this was funding the general fund revenue services.

As First Abu Dhabi Bank and Qatar National Bank were removed from the counterparty list earlier in the year, assurances were sought that similar investments to these would not be made in future. The Group Head of Finance and Section 151 Officer confirmed Officers were aware of the wishes of the Committee in relation to this. He explained they needed to ensure there were enough organisations on the counterparty list that were able to give a sufficient spread of investments and thus reduce risk whilst achieving investment security, liquidity and maximum yield. He was unable to definitively say that somewhere in the chain of Arun's investments were not held in areas the Committee may not wish to invest in, however he would look into this and report back. The Chair stated that the wishes of the Committee were clear, and money should not be invested in banks with obvious human rights issues. The Group Head of Finance and Section 151 Officer reiterated that it was important investments were spread in a way that minimized risk, and the Council were governed by CIPFA and DLUHC regulations, which required them to do this.

Discussion continued regarding whether or not Members were happy to recommend the addition of the Money Market Fund in recommendation 2.4 to Full Council, as there were no obvious human rights issues to consider, or whether they wanted the Group Head of Finance and Section 151 Officer to thoroughly investigate the organisation prior to doing so. There was a suggestion of deferring this recommendation until the February meeting, whilst the Group Head of Finance and Section 151 Officer undertook further investigation of the Council's investment portfolio, and the level of investments that may be in areas the Committee would otherwise not choose to invest in. Members agreed that they were happy to proceed with making the recommendation to Full Council, however they asked Officers to come back with this information to Members after the meeting. The Group Head of Finance and Section 151 Officer explained this was possible, however he wanted Members to be aware that there was a large list of investments to look at, and it may uncover some areas Members did not feel comfortable investing in. He explained that deferring the recommendation until February did slightly heighten risks regarding not having sufficient counterparties to mitigate investment risks. Members were confident Officers had picked State Street Global Advisors (SSGA) with consideration to the Committees previous instructions on the directions of how they wished to invest in the future. It was asked whether Officers were aware which particular funds we would be looking at investing in. The Group Head of Finance and Section 151 Officer explained this was not known yet. One Member also pointed out that the SSGA group had good ESG credentials, which was something that the Committee were keen to see.

The Chair again raised whether Committee felt they needed to defer this recommendation or whether they felt happy to proceed. Members were happy to proceed but again asked the Group Head of Finance and Section 151 Officer to provide information to Members after the meeting regarding the portfolio funds of SSGA. It was confirmed the outcome of this did not affect the recommendations being made to Full Council this evening.

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

The Committee

RECOMMEND TO FULL COUNCIL that

1. the mid year treasury management report for 2023/24 be noted;
2. the treasury mid-year activity for the period ended 30 September 2023, which has generated interest receipts of £1,068,012 (4.65%). Budget £1,540,000 (3.20%), be noted;
3. the actual prudential and treasury indicators for 2023/24 contained in the report be noted; and
4. the addition of a further Money Market Fund (MMF) – State Street Global Advisors (details of which can be seen in 2.4 of appendix 1) be approved.

446. CORPORATE RISK REGISTER UPDATE

Upon the invitation of the Chair, the Group Head of Finance and Section 151 Officer introduced the report, explaining that he was presenting this report on behalf of the Finance & Risk Manager. He highlighted the major cyber-attack score had recently increased but was still deemed to be medium risk. An additional medium risk had been identified (CRR4) relating to supplier support for the Council's electronic document management system. The Corporate Management Team had approved the removal of risk CRR18 relating to the Housing Benefit Subsidy as an auditor had now been identified to undertake the audit. The Corporate Management Team had approved the removal of risk CRR14 relating to Housing repairs - compliance failings. It was deemed that this risk was now being managed to an acceptable level and could now be managed at a service area level. To improve the risk management of major projects (CRR11) this risk had been separated into three separate risks by project: CRR11a - Major Project- Alexandra Theatre; CRR11b - Major Project - Littlehampton Seafront; CRR11c - Major Project - Bognor Regis Arcade.

Members were then invited to ask questions. One Member expressed concern regarding the amount of red risks from CRR10 – CRR11c, and CRR1a - CRR18. It was noted that there was reference to staff needing more training to improve these areas, and it was asked whether there was any progress on this. The Group Head of Finance and Section 151 Officer thanked the Member for the excellent question. He explained that some risks such as the Financial Resilience Risk would remain red for quite some time, although there was a plan to manage that risk and a lot of work was going on to address this. This was the case for other risks too. He said there was assurance to be gained just by the nature of recognising the risks and being aware that the problems were being actively managed. The corporate risks were reviewed on a 6 monthly basis, but there was continuous work being undertaken. The Internal Audit Manager explained the gross risk level was the starting point and effectively the worst-case scenario, and

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the net risk was the risk level once actions were already in place and those that the Council had committed to were taken into account. Some of these net risks were amber. The red risks CRR1-CRR11c were mostly red for the net risk, which appeared the most alarming. Some of these risks were for the major projects, and the risk at the start of these projects was more severe and would reduce as the project progressed. The aim was to reduce the net risk by mitigating the risks.

There was still concern that some of the issues were due to staff training, and it was asked whether there were any plans to improve on that. The Group Head of Finance and Section 151 Officer was not able to give an answer for this where the risks did not come under his area, however he suggested that if Members had particular concerns around certain risks, they could ask the relevant Group Head to attend the Audit & Governance Committee to explain this in further detail.

The Chair thought the risk owners of CRR1-B (Balance of Housing Revenue Account), CRR2 (Organisational capacity to deliver) and CRR7 (Climate Change) should provide a short-written report for the next meeting of the Audit & Governance Committee. There was agreement for this from the Committee.

The report was noted.

447. WORK PROGRAMME

The Internal Audit Manager presented the Work Programme to Committee, highlighting that the February meeting date had changed to Monday 19 February 2024.

The Committee noted the Work Programme.

(The meeting concluded at 7.15 pm)