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AUDIT AND GOVERNANCE COMMITTEE

23 July 2024 at 6.00 pm

Present: Councillors Stanley (Chair), O'Neill (Vice-Chair), P. Bower, Goodheart, Haywood, Jones, Oppler, Purser, Turner, Wallsgrove and Butcher (Substitute for May)

145. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillor May.

146. DECLARATIONS OF INTEREST

Councillor Haywood initially declared a Prejudicial Interest in agenda item 16 as a Member of Littlehampton Harbour Board. However, at the outset of item 16 the Monitoring Officer advised Councillor Haywood that in his opinion she did not have a Prejudicial Interest in the matter but a Personal Interest instead. Councillor Haywood then declared a Personal Interest later in item 16 as a Member of Littlehampton Harbour Board.

Councillor Stanley declared a Personal Interest in agenda item 15 as an employee of Nationwide Building Society.

147. MINUTES

The Minutes of the meeting held on 29 February 2024 were approved by the Committee. These would be signed after the meeting.

148. 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.

149. PUBLIC QUESTION TIME

There were no urgent matters for this meeting.

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150. START TIMES

The Committee

RESOLVED

That its start times for meetings for 2024/25 be 6.00pm.

151. VALUE FOR MONEY INTERIM REPORT - 2022/23

Upon the invitation of the Chair, Simon Mathers, External Audit Partner from Ernst and Young LLP, and Hannah Lill, Senior Audit Manager from Ernst and Young LLP, introduced themselves and presented their report to the Committee. The Senior Audit Manager highlighted the area of Financial Stability. During 2022/23 the Council had been able to set a balanced budget using £5m from reserves, however this was not sustainable. Through planning the 2024/25 budget, the Council had identified a high level savings plan to bridge the gap. Ernst and Young LLP had made two recommendations to the Council, which were included in appendix B of the report. The first recommendation was around timely reporting of the financial position; the second was that the Council identified a savings plan or additional sources of income in order to achieve a sustainable financial position.

The Chair invited questions, and it was asked what the reasons were for the delay in the publishing of the outturn report. The Group Head of Finance and Section 151 Officer explained there had been technical issues with reporting, however significant measures had been put in place in the last 12 months to improve reporting, and he assured Members this would not happen in the 2023/24 outturn. A snapshot of the 2023/24 outturn had already been provided to the Policy and Finance Committee in July.

The Committee noted the report

152. AUDIT PLANNING REPORT - 2023/24

Upon the invitation of the Chair, Simon Mathers, External Audit Partner from Ernst and Young LLP presented the report to the Committee, highlighting key areas including the audit risks and areas of focus summarised on page 48; the Council Materiality on page 49; and the timeline on page 73.

The Chair then invited questions and the following points were raised:

- It was asked why the fees had risen by £100k this year. The External Audit Partner confirmed this was accurate and represented the level of work required and increased regulatory demand.
- It was asked whether fees would be reduced if the government simplified the process. The External Audit Partner explained that if changes were

made to the financial reporting framework produced by Chartered Institute of Public Finance and Accountancy (CIPFA) which simplified the work required, this would be reflected in the fees.

- Questions were asked around the new risk that had been identified regarding IFRS-16. The Group Head of Finance and Section 151 Officer confirmed an implementation plan was in place, and he expected the Council to be compliant with the auditing standard.
- It was asked whether there was a list of all Council owned assets. The Group Head of Finance and Section 151 Officer explained there was a fixed asset register, which he could share with Members upon request.

The Committee noted the report.

153. AUDIT RESULTS REPORT - 2021/22

Upon the invitation of the Chair, Simon Mathers, External Audit Partner from Ernst and Young LLP presented the report, which looked back on the 2021/22 audit, which had been signed off on 25 March 2024.

There were no questions from Members.

The Committee noted the report.

154. AUDITOR'S ANNUAL REPORT - 2021/22

Upon the invitation of the Chair, Simon Mathers, External Audit Partner from Ernst and Young LLP presented the report, which summarised the findings of the 2021/22 audit.

There were no questions from Members.

The Committee noted the report.

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

Upon the invitation of the Chair, the Internal Audit Manager presented the report to the Committee. He explained that the Council's external auditors considered the risk of misstatements affecting the annual accounts due to fraud or error, and as part of this process, they requested the opinion of the Chair of the Audit and Governance Committee. Due to the timing of meetings, the response had been prepared with the previous Chair and was being presented to the Committee for noting.

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The Chair invited questions and one Member asked about the reference to future Bognor Regis regeneration requirements and the Council's plans to increase its housing stock (as shown in the second paragraph on page 178), in particular whether details of these had been decided and finalised. The Internal Audit Manager explained Service Committees had received reports regarding such projects which were included in the medium term financial budgets, but as they would potentially incur substantial amounts of borrowing, they needed to be factored into the financial strategy. The Group Head of Finance and Section 151 Officer explained that any additional projects would be presented to the relevant Service Committees for full approval as usual. The Member stated that this paragraph should state that 'there **will** be a need for further future borrowing from the Council' not 'there **may** be a need'.

The Committee noted the report

156. ANNUAL INTERNAL AUDIT REPORT & OPINION 2023/24

Upon the invitation of the Chair, Nick Barrett, Audit Manager for Southern Internal Audit Partnership, introduced himself and presented his report to the Committee. He explained that the report had been presented to the Corporate Management Team on 11 June 2024. He then briefly summarised each section of the report including Section 4, Internal Audit Opinion, which he felt was the most important section of the report, confirmed that for the year an overall reasonable assurance opinion had been given, which was positive; Section 5 was an overview and key observations, and showed that 93% (13 of the 14 systems reviewed) fell within the substantial and reasonable assurance brackets, which was very positive. Two audits – Housing Rents and Housing Voids were not completed in time to feature in the annual report and would feature in the 2024/25 progress monitoring and subsequent annual report. Both of these had reached draft report stage with one due to complete that week and one in early August. The Control Section set out more detail around the one audit review, Asset Management of Council Buildings, that resulted in a limited assurance; He updated that there was a typing mistake in the first sentence of Section 9 which should read from 2023-24 and not 2022-23; Section 10 showed customer satisfaction was above target.

The Audit Manager for Southern Internal Audit Partnership thanked Arun Officers for enthusiastically engaging in the audit work throughout the year.

The recommendation was proposed by Councillor Bower and seconded by Councillor Purser.

The Committee

RESOLVED

That the annual audit report and opinion for the year ended 2023-24 be approved.

157. DRAFT ANNUAL GOVERNANCE STATEMENT 2023/24

Upon the invitation of the Chair, the Internal Audit Manager presented the report to the Committee. The Annual Governance Statement (AGS) was a mandatory document which accompanied the Council's accounts. It would be provided as a draft to the external auditors and published on the website along with the draft accounts. If significant governance changes occurred before the accounts were audited and accepted, then this could be reflected in the AGS and a final version would therefore be presented to a future meeting once the accounts had been audited. Some of the document remained the same from year-to-year and amended/new wording had been highlighted. The document had been considered by the Corporate Management Team and signed by the interim Chief Executive Officers and the Leader of the Council. The draft AGS was presented for the Committee to note at this stage, and the final version would be presented for approval at a later date.

The Chair invited questions. The AGS stated that 'The Council continues to publish its annual gender pay gap data, as required by central Government', and it was asked whether there was a gender pay gap at Arun District Council (ADC). Officers explained the data did not look at the difference in pay between genders for exactly the same role, but more around the split of genders in various roles at various levels within the organisation. This was information held and published by Human Resources (HR) and was available to view on the website. The Group Head of Finance and Section 151 Officer offered to circulate this data to the Committee.

It was highlighted by one Member that the first sentence on page 207 noted there was one Independent group, however this would need to be amended as there was more than one Independent Group. The Group Head of Law and Governance explained the draft AGS had been prepared prior to the new Independent Group being formed, and this would be amended in the AGS.

The Committee noted the report.

158. HOUSING TENANCY FRAUD UPDATE REPORT

Upon the invitation of the Chair, the Neighbourhood Services Manager, presented her report to the Committee, highlighting the comparative data which showed a significant increase in the number of referrals. There had been different kinds of fraud reported that they were able to investigate and stop, such as people attempting to fraudulently exchange into properties. The financial saving for the last financial year had been over £2m. Not only was this work stopping illegal activity, but also bringing properties back into use, reducing the need for expensive emergency accommodation.

Members congratulated the Neighbourhood Services Manager and her team on the excellent work, and savings to the Council.

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The Committee noted the report

159. TREASURY MANAGEMENT - ANNUAL REPORT 2023/24

[During this item, the Chair, Councillor Stanley redeclared his Personal Interest in this Item as an employee of Nationwide Building Society.

Upon the invitation of the Chair, the Senior Accountant Treasury presented the report to the Committee. She highlighted a few key areas including paragraph 2 on page 238/239, which showed capital expenditure, and the table in 2.3 which showed the actual expenditure at the end of 2023/24 and how this was financed; paragraph 3 on pages 239-241 updated on borrowing and Capital Financing Requirement (CFR), with the table on 3.9 showing the actual CFR at 31 March 2024; paragraph 4 on pages 242-244 updated on the treasury position, with the table on 4.5 on page 243 showing investments at 31 March 2023 at £43.9m, and 31 March 2024 at £42.8m. It also showed the sector breakdown of investments, with an increase in the use of local authorities and money market funds, and a reduction in banks. The table in 4.6 on page 244 showed the investments greater than one year, which were at £8m. A list of all investments at 31 March 2024 in maturity date order could be seen at appendix 4 on page 256. Since this date £14m has matured and £24m new investments have been placed in 2024/25, some of which were short-term investments, and some liquidity investments; paragraph 5.2.2-5.2.5 on page 246 updated on the bank rate and the directional forecast from advisors, Link Group; page 248 showed external borrowing remained at £35.46m, which was currently all Housing Revenue Account (HRA). The next maturity was on 28 March 2030 at £8.87m; paragraph 7.5 on page 249 showed the budgeted rate of return on interest was £3.2%, however they had achieved a rate of return for the year of 4.94%, generating an increase of investment interest of around £890k; paragraph 8.3 on page 251 updated on International Financial Reporting Standard 9 (IFRS9) and showed the potential impact on the Council's revenue budget, should the override currently in place end on 31 March 2025.

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

There were no questions from Members.

The Committee

RECOMMEND TO FULL COUNCIL that

1. the actual prudential and treasury indicators for 2023/24 contained in the report be noted
2. the annual treasury management report for 2023/24 be noted; and

3. the treasury activity during 2023/24 which has generated interest receipts of £2.43m (4.94%). Budget £1.54m (3.2%), be noted

160. CORPORATE RISK REGISTER UPDATE

[At the start of this Item the Group Head of Law & Governance advised Councillor Haywood that he was satisfied she did not have a Prejudicial Interest in this Item, and that she had a Personal Interest only]

Upon the invitation of the Chair, the Finance and Risk Manager presented the report, which provided the quarterly update on the Corporate Risk Register, and had last been reported to the Committee in February 2024. The Risk Register had been reviewed in line with the requirements of the Council's Risk Management Framework. Appendix 3 of the report contained the Corporate Risk Register Summary, highlighting any changes. One risk had been added - risk 19, which related to the Littlehampton Harbour Board; 2 risks had been removed – risk 4.3, relating to ICT and permission to access Government systems, and risk 16, relating to the Chief Executive vacancy. Appendix 3 also contained the detailed risk register entries with any changes in the content highlighted. At the Audit and Governance Committee on 19 February 2024, an enhanced written update had been requested in respect to CRR 2 - Organisational capacity to deliver, and CRR 5 - Corporate Business Continuity and these were included in appendix 4.

The Interim Chief Executive Officer and Director of Growth introduced his enhanced written update on CRR 2 - Organisational capacity to deliver. Members were invited to ask questions and it was asked whether there was felt to have been an adverse effect on staff morale following the removal of the coffee machines. The Interim Chief Executive Officer and Director of Growth explained whilst he believed staff would have preferred to keep them, the coffee machines were something felt to be desirable rather than essential.

The Group Head of Environment & Climate Change introduced his update on CRR 5 - Corporate Business Continuity. He also updated that all services had recently been requested to update their business continuity plans, particularly to ensure plans accounted for a loss of Information Technology (IT). This was prior to an exercise referred to in the written update that would be taking place in October 2024, and organised by the insurers, Protector Insurance. This would test services with a loss of IT, and the use of a disaster recovery drive. Following the exercise, Protector Insurance would provide a feedback report to highlight any improvements required. Following that the Corporate Business Continuity Plan would be updated. Online training had also been identified for all Managers at Arun to provide a greater awareness of the requirement for Business Continuity, and an intranet page had been set up which was accessible to all staff, identifying the role of emergency planning and the training programme.

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Members were invited to ask questions around the Corporate Risk Register and the following points were raised:

- One Member felt that resources would be better spend mitigating the effects of climate change than trying to prevent it, as the Council had a limited amount of money and it shouldn't be spent in the wrong ways.
- Clarification was requested on the outcome of the latest negotiations with Littlehampton Harbour Board. The Interim Chief Executive Officer and Director of Growth explained we were currently in litigation, and were not able to say anything further at this stage.

The Committee noted the report.

161. COUNTER-FRAUD REPORT 2023/24

Upon the invitation of the Chair, the Internal Audit Manager presented his report, which was the annual update to the Committee on counter-fraud activity within the Council. He highlighted page 317-318, which explained that the Council remained proactive in respect of housing fraud investigation, which had been reported separately by the Neighbourhood Services Manager earlier in the meeting; page 318 showed a considerable amount of work had been performed by the Council's Revenues section in reviewing entitlement to Council Tax Single Person Discount (SPD) entitlement and, where appropriate, SPD had been removed and account holders rebilled; page 319 explained the Council's Empty Homes Officer continued to identify and assist in bringing empty homes back into occupation, which benefitted the Council both in terms of New Homes Bonus and Council tax. The work of the Empty Homes Officer was included in the Corporate Plan as indicator CP22 and would be reported to Service Committees as part of the Key Performance Indicator (KPI) reporting.

The Chair invited questions and it was asked whether ADC was sufficiently resourced within the fraud team to ensure the maximum amount of fraud was identified. The Group Head of Finance and Section 151 Officer explained that he felt Arun may not have sufficient resources in place currently, but this was being addressed. It was asked whether further data could be provided around this, in particular benchmarking this against other neighbouring local authorities, and whether it was likely more fraud would have been identified had there been additional resources. The Group Head of Finance and Section 151 Officer confirmed he would be happy to provide a report to the Committee with benchmarking data and actions implemented, although he explained it was not possible to know what fraud activity had been prevented by the team's counter-fraud work.

The Committee noted the report.

162. RECRUITMENT OF INDEPENDENT REMUNERATION PANEL

Upon the invitation of the Chair, the Group Head of Law and Governance presented the report which set out plans to enable the Council to recruit a new Independent Remuneration Panel (IRP) as the existing Panel's Terms of Office expired on 31 March 2024. He went on to explain the recommendations to the Committee.

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

Members thanked the Officers for the report. It was asked when the advert would go out and when the new IRP members were expected to start. The Group Head of Law and Governance confirmed an update would be circulated to Members by the Committee Services Manager, with an expected timeframe for the process, upon her return from annual leave.

The Committee

RESOLVED

1. to endorse the options for recruiting a new Independent Remuneration Panel as set out in Section 4.6 of the report;
2. to agree that the Council seeks to recruit a Panel consisting of five members for a term of 4 years;
3. to agree the guidance note and application pack as attached to the report as Appendix 1;
4. to agree to appoint two Members of the Committee, one to be the Chair, to sit on the IRP's Interview Panel; and
5. it be noted that in line with the Constitution, the Chief Executive will make appointments to the Panel in line with their delegated authority.

163. WORK PROGRAMME

The Committee noted the Work Programme.

(The meeting concluded at 7.16 pm)

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