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AUDIT AND GOVERNANCE COMMITTEE

3 October 2024 at 6.00 pm

Present: Councillors Stanley (Chair), Mrs Bower, Goodheart, Haywood, May, Turner, Wallsgrove and Tandy (Substitute for O'Neill)

[Councillor Goodheart was absent from the meeting during discussion for all or part of minute number 249 - 253]

249. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors O'Neill, Jones and Purser.

250. DECLARATIONS OF INTEREST

Councillor Haywood declared a Personal Interest in agenda item 8 as a Member of Littlehampton Harbour Board.

Councillor Stanley declared a Personal Interest in agenda item 9 as an employee of Nationwide Building Society.

251. MINUTES

The Minutes of the meeting held on 23 July 2024 were approved by the Committee. These would be signed after the meeting.

252. 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.

253. PUBLIC QUESTION TIME

There were no urgent matters for this meeting.

254. EXTERNAL AUDIT UPDATE REPORT

Upon the invitation of the Chair, Simon Mathers, External Audit Partner from Ernst and Young LLP presented the report to the Committee. Details of the 2022/23 audit commenced on page 14 of the agenda pack. The External Audit Partner reminded

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Members that at the last Committee meeting he updated about national measures to address the backlog in local government audits, and there had been significant movement in respect of this. In September 2024 legislation had been laid before parliament, which then came into force on Monday 30 September 2024. The statutory backstop date for completion of 2022/23 audits had been fixed at 13 December 2024. Backstop dates had also been set for subsequent years, and audits had to be completed by these dates, with Councils having published accounts and audit reports completed. If the work was not finalised by these dates, an audit report based on what had been done would be formed, which essentially meant the auditors would issue some sort of modification or qualification to that report.

Ernst & Young LLP had previously set out their strategy, which was not to attempt the 2022/23 audit in order to clear the backlog. They had communicated to Members at the last meeting that they expected to disclaim the 2022/23 audit. They had now moved forward with their programme of work, and were required to complete their work across all local authorities by the end of November, giving time for local authorities to complete the signing and publication of the accounts by the backstop dates. The next scheduled meeting of the Audit & Governance Committee was 03 December 2024, so the report could be brought to that meeting, accounts for year ending 31 March 2023 could then be approved, and Ernst & Young LLP could sign the disclaimed report. The accounts and disclaimed report could then both be published together, hitting the backstop date, which would be tight, but manageable.

Details of the 2023/24 audit started on page 16 of the agenda pack, and it was clear there was a significant amount of work that needed to be done in a short space of time. Ernst & Young LLP's resources were finite, and they had therefore had to undertake a prioritisation review. A letter had been sent to all Section 151 Officers in August 2024, setting out that they would be looking at all Councils that had not published accounts by the end of July 2024. They updated this assessment in early September, and Arun District Council's (ADC) 2023/24 accounts had not been published, although Officers had indicated the accounts were in a position to be published, and working papers could be made available. Ernst & Young LLP, had taken the difficult decision to deprioritise the audit and move the resources to those councils that had published their accounts on time, or onto the team undertaking the work to complete disclaimed audits for 2022/23. This was a change from their position at the last Audit & Governance Committee. ADC were not alone in this position.

Ernst & Young LLP had committed that upon completion of ADC's 2023/24 accounts, they would reassess whether they would be able to start and complete the audit, and should circumstances change with sufficient resources freed up, they would inform Members of this. He explained the planned work on Value for Money arrangements for 2023/24 audit would still be completed. There was not currently a team allocated to the 2023/24 financial statements audit, and it was likely they would disclaim those accounts similar to 2022/23.

The Chair invited questions and it was asked what the implications were for ADC following this update. The Group Head of Finance explained that the accounts would be published within the next week or two. He went onto say that in the past the Council

had always produced a high standard of papers and been in a position to publish these in good time, which had been acknowledged by previous auditors. He felt disappointed at the situation, and although he understood Ernst & Young LLP were also in a difficult position, he highlighted that delays to the 2021/22 and 2022/23 had not been down to the ADC. However, those sets of accounts were still to be signed off, and furthermore ADC had only recently been requested by Ernst & Young LLP to provide further information. The 2023/24 Accounts had not been published within the required timescales, but Officers had been working under exceptional circumstances. ADC was likely to get a disclaimer opinion, which was not where the Council would want to be, but for 2022/23 it had no choice in this, and this was likely also the case for 2023/24. He emphasised this did not mean ADC would have a qualified set of accounts for those financial years, which would be the worst case. The situation would not affect ADC in cash and budget terms, and Officers would work to make sure we would not be in the same situation for 2024-25.

One Member asked whether the delay was something the Committee should be seeking positive intervention on, and who was responsible. The Group Head of Finance explained a restructure was being carried out in the finance department, aimed at tackling several issues including ensuring they were able to complete accounts in a timely fashion going forwards, and increasing accountability. Arun had always had a good relationship with Ernst & Young LLP in the past, and he was sure this would continue.

The Chair highlighted that the next meeting was 03 December 2024, however the agenda would need to be published in advance of this, and he requested clarification that we would be in a position to meet these deadlines, and whether Ernst & Young LLP were waiting on anything from ADC. The External Audit Partner believed all of the requested information had been provided to the auditors and they could offer outputs for the Audit Completion Report and Letter of Representation by the end of November at the latest. For the December meeting, the Committee could consider all the necessary items, or delegate authority to Officers to approve these.

The Chair explained his understanding was that ADC would not be audited for 2022/23 in order to complete the backlog, and he asked whether the Council had therefore paid for an audit that would not be happening. The External Audit Partner explained that some work had been completed including the Value for Money report, and they had also undertaken limited procedures on the financial statements. He explained ADC bought into a framework arrangement that was run by Public Sector Audit Appointments Ltd, and they would determine the fee payable for 2022/23 based on the level of work undertaken. The Council had already been invoiced for this, and if it was determined that the level of work completed did not merit the amounts paid, the appropriate amounts would be adjusted back to the Council.

The Committee noted the report.

255. INTERNAL AUDIT PROGRESS REPORT JULY 2024

Upon the invitation of the Chair, Nick Barrett, Audit Manager for Southern Internal Audit Partnership (SIAP), presented the report to the Committee, the purpose of which was to update on internal audit progress. He highlighted section 3, the performance dashboard, which indicated SIAP were slightly behind the curve in delivery, however since the report had been completed a number of the reviews had progressed. The review of housing voids had concluded with a reasonable assurance opinion; the section 106 review had completed with a substantial assurance opinion; the final report on the UK prosperity fund review had been issued that afternoon with a substantial opinion; the close of audit meeting for the parks and greenspaces review was scheduled for the following week; the accounts payable and housing benefits review were nearing reporting stage; the payroll, community safety and environmental health and protection review were underway; the review of Wi-Fi security had now been finalised and the disaster recovery review, originally scheduled for quarter 2, had now been allocated a resource and would be commenced in quarter 3; it had been agreed with the Senior Leadership Team that the cleansing services review, originally set for quarter 1, would move into quarter 3 and scoping meetings for this and other quarter 3 reviews were currently being arranged; the neighbourhood services and tenancy management review originally in quarter 1, had moved into quarter 3 following discussion with the Group Head of Housing. He hoped this would provide Members with assurance on SIAP's progress, and he remained confident they would be in a position to produce their annual report and opinion at the end of the year.

The Audit Manager also highlighted the action tracking, explaining SIAP were comfortable that there were not many actions running over the target dates and were satisfied for the reasons of any slippages.

The Chair invited questions and the following points were raised:

- It was asked whether there was an update on the management actions regarding the Corporate Information Asset Register. The Group Head of Finance explained that this area was not in his remit, however he stated Members could ask for an update on this or other areas by way of the relevant manager's attendance at the Committee meeting or an email update circulated to Members.
- Business Continuity on page 32 was listed as limited, and only medium priority. Had management changes been put in place and were they likely to get a better result once this had been done? The Group Head of Finance explained that his teams had been ensuring business continuity plans were online and up-to-date. He would ask other Group Heads to provide an email update to Committee regarding their areas.

The Committee noted the report.

256. CORPORATE RISK REGISTER UPDATE

Upon the invitation of the Chair, the Group Accountant presented the report to the Committee, the purpose of which was to highlight the updates to the Corporate Risk Register since it was last brought to Committee. He highlighted appendix 3, and explained the risks had remain stable, the CEO had taken over responsibility for CRR2 (organisational capacity to deliver) and CRR3 (change management and transformation). As of 20 August 2024 four items had been removed from the Corporate Risk Register, and had been moved to the relevant operational risk registers. Some of the detailed working had been updated for CRR1b, CRR7, CRR10 and CRR1a, with amendments highlighted in yellow. Appendix 4 was an example of an alternative reporting format which Officers planned to use going forwards.

The Chair invited questions and the following points were raised:

- The new reporting format was welcomed and felt to be easier to understand.
- CRR2 – concern was expressed about the stress members of staff were under and it was asked why ADC were having difficulty recruiting and holding onto staff. The Group Head of Finance explained the issue of staff wellbeing was being addressed, it was staff wellbeing week the following week; there was an employee assistance programme available to all staff; and when staff were off sick, managers were in contact with them. He suggested the risk owner appear before the Committee at its next meeting to give a full update on this.
- CRR11a – the Alexandra Theatre Project risk was concerning and it was asked whether an update could be provided. The Internal Audit Manager confirmed regular progress reports regarding the Alexandra Theatre Project were taken to the Policy & Finance Committee meetings.
- One Member congratulated the housing team, as she had received positive feedback from a resident about them stating how much improved things were with the support they had been getting.
- CRR5 – Corporate Business Continuity – it was asked that the CEO also take responsibility for CRR5 as it was strongly linked to CRR2. The Group Head of Finance would take this request to the Corporate Leadership Team, however felt this was being taken very seriously by the Council.
- CRR1b – when referring to Housing Revenue Account (HRA) it says ‘are now at critical levels’, which was concerning. The Group Head of Finance explained reserves were well below the Council’s self imposed target of £2m. Quarterly updates were provided to Housing & Wellbeing Committee and the HRA accounts were reported to the Corporate Leadership Team on a monthly basis, where any necessary actions were addressed. The situation was being actively managed.

The Chair advised Members to provide questions regarding the Corporate Risk Registers in advance of the Committee meetings, so answers could be sought from the relevant Officers and provided at the meetings.

The Committee noted the report.

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257. TREASURY MANAGEMENT – QUARTER 1 REPORT 2024/25

[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, explaining it was the Quarter 1 Treasury Management report which updated on activities up to the end of June 2024. She highlighted pages 86 and 87 which provided information on the economic situation and interest rate forecasts from the treasury advisors. Their forecast on 28 May 2024 indicated that the Bank of England Base rate would reduce to 4% by March 2025 and would rest at 3.25% by March 2026, however they were currently looking to revise this forecast.

Appendix 1 provided information on the investment position at 30 June 2024 and the Senior Accountant Treasury highlighted some key points as follows: the table in 1.4 showed investments held were £48m, this had been £42.77m on 31 March 2024, this change was largely to do with the timing of payments such as precepts which were paid on 05 July 2024; the average level of funds held throughout the quarter was £44m; 1.11 - performance against the budget was positive by 0.52%, which was largely due to better rates than expected in the budget; 1.12 - outturn was expected to achieve over £2m in investment income, which was around £140k above budget at June, but this had improved since; 1.14 - The IFRs 9 International Financial Reporting Standard (page 95) override was in place until 31 March 2025, but should it not have been in place the valuations on our CCLA funds at June would have meant an adverse impact of £477k on the Council's revenue budget.

Appendix 2 provided information on the Councils borrowing position and the Senior Accountant Treasury highlighted some key points as follows: there had been no new external borrowing in Quarter 1; the only external borrowing was for the HRA self-financing settlement (£70.9m initially to £35.45m currently) of rates between 3.21% and 3.48% for maturity loans

Appendix 3 provided information on the Prudentials Indicators.

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

The Chair invited questions and debate and it was asked why ADC were investing in local authorities when it was known these were struggling. The Group Head of Finance explained no Councils had actually gone bankrupt, and local authorities were still considered to be a safe investment.

The Committee

RECOMMEND TO FULL COUNCIL that

- 2.1. the Quarter 1 treasury management report for 2024/25 be noted;
- 2.2. the treasury activity for the quarter ended 30 June 2024, which has generated interest receipts of £563,000 (5.15%) against a budget of £1,896,310 (4.63%), be noted; and
- 2.3. the quarter 1 prudential and treasury indicators for 2024/25 contained in the report be noted.

258. UPDATED ANTI-MONEY LAUNDERING POLICY

Upon the invitation of the Chair, the Internal Audit Manager presented the report to the Committee. The existing policy had not been reviewed for several years and this had been commented upon by SIAP in a recent audit. The updated policy was attached for consideration and adoption by the Committee. A recently updated document from another authority had been used as a base for the new policy, and the changes were not substantive. It was felt unlikely that events would occur requiring action to be taken, as the Council no longer accepts cash payments directly for its services

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

There were no questions or comments from Members.

The Committee

RESOLVED that

1. It agrees the proposed amendments and approves the updated Anti-Money Laundering Policy for adoption by the Council; and
2. Authority be delegated to the Group Head of Finance & Section 151 Officer to make consequential changes to the Policy in respect of any organisational/legislative changes and minor typographical corrections.

259. UPDATED ANTI-FRAUD, CORRUPTION & BRIBERY POLICY

Upon the invitation of the Chair, the Internal Audit Manager presented the report to the Committee. The Council's anti-fraud policy had last reviewed by the Committee in 2019, which had been raised by SIAP. The opportunity had therefore been taken to make some minor updates to the policy and also to present it in a different structure, as

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recommended by SIAP. The new policy was shown at pages 127-144, with the old policy for comparison at pages 145-169

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

The Chair invited questions and debate and the following points were made:

- One Member requested an update to a question he asked at the previous meeting around whether Arun were sufficiently resourced to tackle fraud and corruption. The Group Head of Finance explained there were specific fraud resources within Housing, and the Finance restructure would be looking at resources for this elsewhere in the Council. It was an issue being taken very seriously.
- The Housing team were congratulated on their results in tackling fraud.
- Paragraph 5.11 mentioned recovery of costs and it was asked whether this had been successfully done. The Internal Audit Manager explained this was in relation to staff for example having stolen something, and there were not believed to have been any instances of this.

The Committee

RESOLVED that

1. It agrees the proposed amendments and approves the updated Anti-Fraud, Corruption & Bribery Policy for adoption by the Council; and
2. Authority be delegated to the Group Head of Finance & Section 151 Officer to make consequential changes to the Policy in respect of any organisational/legislative changes and minor typographical corrections.

260. REGULATION OF INVESTIGATORY POWERS ACT (RIPA) - REVIEW OF POLICY AND PROCEDURES

Upon the invitation of the Chair, the Group Head of Law and Governance presented the report to the Committee. The Regulation of Investigatory Powers Act 2000 (RIPA) governed the acquisition and disclosure of communications data and the use of covert surveillance by local authorities. The Council was required to have in place a policy governing its use of RIPA powers, and a set of procedures detailing how Officers would implement its policy as part of investigations. ADC have not used these powers for a long time, however they were available, should it be necessary and proportionate. On 13 March 2023 the Council was the subject of its periodic inspection by the Investigatory Power Commissioner's Office (IPCO), with the process facilitated by the Group Head of Law & Governance. The inspection took place over the course of

one day, and the IPCO's inspection letter was shown as Appendix 1. The Commissioner's report provided positive conclusion and comments regarding both the Council's policy and procedures, and the way in which the use of RIPA was governed at the Council. Paragraph 4.9 highlighted the main actions from the inspection. Some of these were complete, including the annual update to Committee, and a review of the equipment used and how that equipment would be booked in and out. All of the other actions were for consideration at this meeting and had been included in Appendices 2 and 3.

The Group Head of Law and Governance updated that the lists of Authorising Officers and Approved Ranked Officers on page 209 were slightly incorrect, and should read Authoring Officers: Chief Executive (Head of Paid Service) – Dawn Hudd; Director of Environment and Communities - Philippa Dart; Director of Growth - Karl Roberts; Group Head of Technical Services – Nat Slade. Approved Rank Officers: Chief Executive (Head of Paid Service) - Dawn Hudd; Director of Environment & Communities - Philippa Dart; Director of Growth - Karl Roberts; Group Head of Law & Governance - Daniel Bainbridge; Group Head of Housing, Wellbeing & Communities – Richard Tomkinson.

The recommendation was proposed by Councillor May and seconded by Councillor Turner.

There were no question or comments from Members.

The Committee

RESOLVED

That the revisions to the 'Corporate RIPA Policy & Procedures' and 'Guidance on the Use of Social Media in Investigations' be approved, and that the revised Policy is adopted by the Council.

261. WORK PROGRAMME

The Committee noted the Work Programme.

(The meeting concluded at 7.19 pm)

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