

# Public Document Pack

Subject to approval at the next Audit and Governance Committee meeting

485

## AUDIT AND GOVERNANCE COMMITTEE

27 February 2025 at 6.00 pm

Present: Councillors Stanley (Chair), O'Neill (Vice-Chair), Haywood, May, Oppler, Purser, Turner and Wallsgrove

### 566. APOLOGIES FOR ABSENCE

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

### 567. DECLARATIONS OF INTEREST

Councillor Haywood declared a Personal Interest in agenda items 6 and 9 as a Member of Littlehampton Harbour Board.

Councillor Stanley declared a Personal Interest in agenda item 10 as an employee of Nationwide Building Society.

### 568. MINUTES

The Minutes of the meeting held on 03 December 2024 were approved by the Committee. These would be signed after the meeting.

### 569. 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.

### 570. PUBLIC QUESTION TIME

No public questions had been submitted.

### 571. AUDIT COMPLETION REPORT

Upon the invitation of the Chair, the Senior Manager from Ernst and Young LLP (EY), presented the report to the Committee, explaining that EY had issued a disclaimed audit opinion on the 2023/24 financial statements on 12 February 2025. Members were asked to note the Audit Completion Report, which had been written prior to issuing the opinion. He highlighted Section 4 (page 38), in relation to Value for Money arrangements. They had identified one risk of a significant weakness in the

Audit and Governance Committee - 27.02.25

Council's arrangements regarding timely reporting of the outturn report and financial statement. Narrative including the outcome of these investigations were shown on page 42-43, and they had concluded there were no significant weaknesses in the Council's arrangements. No other risks of significant weakness in the Council's arrangements for Value for Money had been identified, but their recommendations made in 2022/23 were still relevant for 2023/24. The management responses to these were shown on page 66.

Questions were invited, and it was asked how the Council would catch up from the disclaimed audit report, and whether there would be a temporary audit. The Senior Manager from EY explained they were working with industry regulators in terms of how to rebuild assurance across disclaimed audits. All 2022/23 disclaimed audits had been disclaimed again for 2023/24. EY had started planning the audit for 2024/25, and would continue to audit the 2024/25 financial statements until further guidance was issued from the Financial Reporting Council (FRC) in terms of any rebuilding of the prior system. The FRC had issued guidance on how a disclaimed audit would unwind over time, which had been brought to the Committee previously.

The Chair asked what percentage of local authority audits had been disclaimed for the year 2023/24. The Senior Manager from EY did not have a figure for this, however reiterated that all local authorities that had received a disclaimed opinion for 2022/23, had also received a disclaimer in 2023/24. She would find out how many disclaimed opinions had been issued and send this information to Committee Members. The Group Head of Finance and Section 151 Officer stated that the government website had confirmed that it was expecting hundreds of disclaimed opinions to be issued.

The Committee noted the report.

#### 572. INTERNAL AUDIT PROGRESS JANUARY 2025

Upon the invitation of the Chair, the Audit Manager for Southern Internal Audit Partnership (SIAP), presented the report to the Committee. He highlighted Section 3, the Performance Dashboard, shown on page 78. This showed good progress on the audit plan for this year, and he was pleased to update that all reviews were now underway. He updated that the rolling programme on Section 7 (page 80) had moved on since the report had been prepared. Final reports had been issued on payroll and climate strategy and both assessed as reasonable. SIAP were working on the final report on community safety, which looked at anti-social behaviour, and was currently being agreed with officers. The draft report for neighbourhood services which focussed on the housing consumer standards, was due to be shared with key contacts very shortly. Fieldwork was underway for fees and charges in technical services and the IT disaster recover review was also being undertaken. The procurement review was at draft terms of reference stage, with fieldwork due to be undertaken in March. Taxi licencing would also be undertaken in March and responsive and emergency repairs was scheduled for March into April. The HR review would focus on equality, diversity

and inclusion and was currently being scoped. He was confident that SIAP would be in a strong position to produce the annual report and opinion at the end of the year.

Action tracking was shown in Section 4, page 79 of the pack. SIAP remained comfortable as there were very few actions running over the target date, none of which were a high priority. Where actions were overdue, SIAP were satisfied for the reasons.

There were no questions from Members.

The Committee noted the report.

#### 573. INTERNAL AUDIT CHARTER AND RISK-BASED ANNUAL PLAN 2025/26

Upon the invitation of the Chair, the Deputy Head of SIAP presented the Internal Audit Charter to Committee. He reminded Members that the new global internal audit standards had been brought to the December meeting, as the standards had undergone significant revision, and these new standards would be effective from 01 April 2025. The Charter had therefore gone through revision to ensure it met those new standards. Some of the Charter would be familiar to Members, however as there had been significant revision it should be considered as a new document. The Charter was an important document that covered key areas such as SIAPs authority, roles and responsibilities, resources necessary to deliver the Internal Audit Plan, and it outlined the ethics, professionalism, independence and objectivity, also detailing the reports that would be delivered during the year.

It was asked whether the Council would be ready for the new global internal audit standards coming into effect on 01 April 2025. The Deputy Head of SIAP explained that all required documentation would be in place for the new standards, and they were confident that all required actions had been carried out in order to be ready for these.

The Audit Manager presented the Internal Audit Risk-Based Plan, which had been compiled in line with the requirements as set out in the global internal audit standards. He thanked all Group Heads and Directors for their engagement throughout the planning process. He highlighted some key points as follows: page 113 – conformance to standards, which reflected the changes in standards. The current external quality assessment remained valid, but was due for renewal this year and would be assessed under the new global internal audit standards; page 114 - developing internal audit plan – outlined key processes SIAP had undertaken in compiling the plan; page 115 - internal audit resources. This was a new section setting out elements of internal resourcing and how this was managed; page 116 – resourcing the internal audit plan, gave a further breakdown of utilisation of audit days; page 116 reiterated SIAP's independence; page 117 showed the plan itself and outlined the scope of audit coverage for the year. He reminded Members the plan was dynamic and subject to change. SIAP would continue to carry out quarterly check-ins with the Corporate Leadership Team. They envisaged as the position regarding devolution and local government reorganisation became clearer, this would have an impact on the plan. Any changes would be brought to committee via progress the report.

Audit and Governance Committee - 27.02.25

The Chair asked about the Local Plan and how devolution may impact the assessment of that being a priority. SIAP would remain mindful of this, taking it into account, and making sure the plans remained dynamic. The Group Head of Finance and Section 151 Officer explained it was too early to determine the impact, and for now it would be business as usual.

It was asked why tree safety was established as high priority, to be undertaken early on, and whether this covered only Arun District Council (ADC) trees, and not other trees within the District. The Audit Manager confirmed this covered only ADC trees, and this was seen as an increasing risk to all authorities, and the timeliness needed to fit around service availability.

The recommendations were proposed by Councillor Wallsgrove and seconded by Councillor O'Neill.

The Committee

RESOLVED that

-

- 1) The Internal Audit Charter 2025-26 (appendix A) be approved;
- 2) The Internal Audit Risk-Based Plan 2025-26 (appendix B) be approved.

#### 574. CORPORATE RISK REGISTER UPDATE

Upon the invitation of the Chair, the Insurance, Risk and Procurement Manager presented the report to the Committee. This report provided the quarterly update on the Corporate Risk Register. This included updates to all high risks, which were reviewed by the Corporate Leadership Team on 21 January 2025, and also captured any updates to medium risks during the quarter. The key updates were detailed in section 4.6 (page 124) and included CRR1-B - Balance of Housing Revenue Account - the net risk score had reduced and was now a medium risk; CRR11a - Major Project- Alexandra Theatre - the net risk score had reduced, however it remained a high risk; CRR19 - Littlehampton Harbour Board - the net risk score had increased, and it was now a high risk. Other updates from the review were also highlighted on the individual risk register entries included as Appendix 3. A new risk register entry was currently being developed for devolution and local government reorganisation, and this would be presented to the Committee at the next meeting.

The Group Head of Housing, Wellbeing & Communities then presented his update on CRR1-B (Balance of the Housing Revenue Account). He explained Housing and Finance colleagues had worked extremely hard this year delivering a number of key initiatives to be confident in forecasting the first Housing Revenue Account (HRA)

surplus in a number of years. They had insourced repair services and de-pooled service charges which would deliver further improvements in the next financial year. The refresh of the HRA business plan looked strong. Whilst these actions had reduced the risk from high to medium, officers would not be complacent and would continue to maintain effective custodianship of the HRA.

The Chair invited questions around the CRR1-B update and Members praised the Housing department for the work they had done.

It was asked whether the Grants that were being made available by Veterans Affairs in the Ministry of Defence (MOD) could be looked at. There were substantial amounts of money available, and it was felt this could be beneficial to the Council. The Member would be happy to help with this wherever possible.

The Chair invited questions on the wider report. Further information was requested around the ghost fishing gear, and whether we charged money for storing the nets, or were able to sell these. The Member would contact officers in the relevant department.

The Chair asked whether there was an update on CRR19 – Littlehampton Harbour Board, as the report stated an appeal would be submitted by January 2025. The Group Head of Law and Governance confirmed that this had been submitted, but officers had found out the previous week that this application was not successful. Next steps were now being considered.

The Committee noted the report.

575. TREASURY MANAGEMENT STRATEGY & ANNUAL INVESTMENT STRATEGY 2025/26

[Councillor Stanley re-declared his Personal Interest at the start of this Item]

Upon the invitation of the Chair, the Senior Business Partner presented the Treasury Management Strategy & Annual Investment Strategy 2025/26 report, which also contained updated information for quarter 3 to 30 December 2024. She explained that Treasury Management was the management of borrowing, investments, cash flow, banking and money market transactions. She highlighted paragraph 4.3.4 on page 174, which updated that Close Brothers, one of the UK's largest providers of motor finance products, were under investigation due to issues in the disclosure of commission payments to customers. This had caused a ratings downgrade, and currently the Fitch rating did not meet the minimum criteria in category 3. They were therefore suspended from further investments for the Council until such times as the position improved.

The Prudential Indicators summary could be found in Appendix 2, and the details were within Appendix 1.

Audit and Governance Committee - 27.02.25

There were two external borrowing limits (page 166). The 2024/25 operational boundary limits were set at £78m and authorised borrowing limits were £83m. It was being requested that the 2025/26 limits be increased to £85m and £90m respectively, which was due to an increased capital investment and therefore capital financing requirement for 2025/26.

Appendix 11 stated that further consultation regarding IFRS 9 had closed on 15 January 2025, and it was decided that there would be no continuance of the override after 31 March 2025. The Senior Business Partner updated that the Department for Levelling Up, Housing, and Communities (MHCLG) had notified the Council earlier that day that they had decided to implement transitional arrangements for investments already in place at the end of the financial year on 01 April 2024. The override, therefore, would continue to apply for these investments until the 1 April 2029. Any new investments taken out after the 1 April 2024 would be subject to IFRS 9 compliance and would require fair value movements to be accounted for.

The Group Head of Finance and Section 151 Officer explained to Committee that the recent news regarding IFRS 9 was very good news. They had built up a reserve to mitigate the risk, and despite the risk being moved back four years, they would likely keep the reserve where it was. It was very good news they currently did not have to charge the loss of capital value against the revenue account, and it may be that the capital value increased over the next four years. He clarified the reason for the downgrading of Close Brothers was not because it was thought there was a risk of them collapsing, but was due to reputational reasons. The Treasury Management experts, LINK, had confirmed the risk of investments held with Close Brothers was no greater than any other normal investment risk.

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

- It was asked whether the Council would be removing investments with Close Brothers. The Group Head of Finance and Section 151 Officer explained the investments matured in November and they would remain until then, however unless the situation had changed the Council would not be re-investing in Close Brothers.
- It was asked whether ADC's investment in other councils would cause any issues with devolution. The Group Head of Finance and Section 151 Officer explained this would not cause issues as where relevant, investments would carry to the new unitary authorities.
- It was asked whether ADC would be reinvesting with the Overseas Chinese Banking Corporation, as there were concerns around their humanitarian record, and they did not have the highest rates of return. The Group Head of Finance and Section 151 Officer explained that the investments needed to be primarily based around Security, Liquidity and Yield. It would be very difficult to look at exactly where other counterparties invested money, and these may also not be desirable. The Senior Business Partner explained Overseas Chinese Banking Corporation were in the highest category, and the Council invested in a range of investments in that category, not just the top return rate, in order to spread the risk.

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

The Committee

RECOMMEND TO FULL COUNCIL that

1. The Treasury Management Strategy Statement for 2025/26 be approved and adopted.
2. The Annual Investment Strategy for 2025/26 be approved and adopted.
3. The Prudential Indicators within the TMSS and AIS for 2025/26, be approved.
4. An operational boundary borrowing limit of £85M for 2025/26 as shown in Appendix 2, be approved.
5. An Authorised Borrowing Limit of £90M for 2025/26 as shown in Appendix 2, be approved.

#### 576. UPDATED WHISTLEBLOWING POLICY

Upon the invitation of the Chair, the Group Head of Law & Governance presented the report to the Committee. The purpose of the Whistleblowing Policy was to allow workers to raise concerns about unethical, illegal or improper conduct that they believed to be in the public interest, without fear of retaliation. The updated Whistleblowing Policy was attached at Appendix 1, and the current version of the policy at Appendix 2. He highlighted the main changes to the policy, as detailed in paragraph 4.1 on page 198.

The Chair invited questions and debate and Members offered support for the revised Whistleblowing Policy, which was thought to be robust; it was felt sensible for the responsibility to be moved to the Monitoring Officer; and it was pleasing that Unison had been involved.

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

Audit and Governance Committee - 27.02.25

Having considered the revised Whistleblowing Policy,

The Committee

RESOLVED

That the revised Whistleblowing Policy be adopted by the Council

577. USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA) ANNUAL REPORT 2024

Upon the invitation of the Chair, the Group Head of Law & Governance presented the annual report to the Committee. He explained that the Council were inspected periodically by the Office of the Surveillance Commissioner, and as Members were aware had received a good inspection in 2023. It was important that Members were made aware of any use or not of the RIPA powers available to the Council. The powers gave the ability to conduct covert surveillance, given the correct circumstances. There would be investigations at some point where this was necessary in order to effectively investigate potential crime. These powers had not been used in the past 12 months, and were clearly used sparingly, which pleased him.

The Chair invited questions and debate and it was asked whether any further reviews were planned, or whether these were announced at very short notice. The Group Head of Law and Governance explained there were not currently any further inspections planned, and there was usually several months of notice provided prior to these inspections, which were largely remote exercises.

The Committee noted the report.

578. WORK PROGRAMME

The Chair confirmed that the Partnership Review Item had been removed from the Work Programme. Some partnership bodies had ceased to exist, such as the Coastal West Sussex Partnership and the Bognor Regis Regeneration Board, and in light of devolution some were reassessing themselves, so there was felt to be little value in undertaking such a review at this time.

The Internal Audit Manager presented the Work Programme, which was then noted by the Committee.

(The meeting concluded at 6.57 pm)