

Minutes

Governance and Audit Committee

24th August 2023 at 7.15pm



Present

Councillors	Present	Councillors	Present
Councillor J Baugh	Yes	Councillor R Ramage	No
Councillor J Edwards (Vice Chairman)	Yes	Councillor R van Dulken	Apologies
Councillor M Green	Yes	Councillor T Walsh	Yes
Councillor A Hooks	Yes	Councillor L Walters	Apologies
Councillor L Jefferis	Yes	Councillor J Wrench (Chairman)	Yes
Councillor A Munday	Yes	Councillor B Wright	Yes
Councillor G Prime	Yes		

Officers in attendance:

Mark Jarvis – Financial Services Manager
Jessica Mann – Scrutiny Officer
Angie Mitchell – Audit, Insurance and Fraud Manager
Phil Myers – Head of Finance

Steve Bladen, External Auditor at BDO LLP, was also in attendance in respect of Agenda Item 9, 'Local Audit Update.'

1 **DECLARATIONS OF INTEREST**

INFORMATION: There were no interests declared.

2 **MINUTES**

DECISION: The Minutes of the meeting of the Governance and Audit Scrutiny Committee held on 20th April 2023 were approved as a correct record and signed by the Chairman.

3 **PUBLIC QUESTION TIME**

INFORMATION: There were no questions asked, or statements made.

4 **COUNCIL'S KEY FINANCIAL INDICATORS AS AT 30TH JUNE 2023**

INFORMATION: Members gave consideration to a report on the Council's Key Financial Indicators (KFIs) as of 30th June 2023.

Before the commencement of the main KFI report, the Committee was advised that the report would normally include information on the revenue budget position compared to the profile to the end of the reporting period. However, it was proposed that the report instead be aligned with the regular in-year financial reporting to Senior Management and the Cabinet, which focused on providing a projected year-end position against the budget. Therefore, the first quarter review and projection for the year would be reported to the Cabinet meeting on 25th September 2023 and within the KFI report at the next meeting of the Governance and Audit Committee on 4th October 2023.

In terms of capital expenditure, the current programme totalled £13.1million, of which £6.6million was profiled to be spent in 2023/24. The profiled spend included planned expenditure on areas such as Witham and Halstead town centre improvements, final works at the Plaza Enterprise Centre, Horizon 120 Business Park, etc. The actual expenditure incurred up to the end of June 2023 was £595,000.

Anticipated capital receipts for the year totalled £3.9million which included receipts from Right-to-Buy (RTB) sales through Eastlight Community Housing, and receipts from the sale of Council-owned sites and the grant of access rights. In the current economic climate, there had been a marked slow down in the number of RTB sales with only three sales completed as at the end of June 2023 with a receipt value of £195,000. The Council had also received £60,000 from a legacy VAT shelter arrangement with Eastlight. Other minor receipts were received which totalled £45,000.

Members were then advised that the total Council Tax collectable debit for the year was £115million. The collection rate as at the end of June was 30.5% (£35.0million collected), which compared to a rate of 30.1% for the same period last year. It was added that collection continued to be closely monitored for any changes due to the impacts on households from the Cost of Living Crisis.

In respect of Business Rates, the total collectable debit for the year was £47million. As at the end of June, the collection rate was 30.1% (£14.2million collected), which compared to a rate of 31.3% for the same period in the previous year. Business rate relief schemes introduced by the Government during the Covid pandemic had gradually been withdrawn or reduced and were leading to higher amounts collectable. Furthermore, a revaluation of business rates had also come into effect from April 2023; as such, some businesses would experience increases in their rate liability. In terms of Business Rates write-offs, there had been a total of 15 throughout the year with a net value of £26,000.

There had been a total of 272 write-offs of Council Tax, with a value of £47,000 having been authorised in the year to date. Individual Voluntary Arrangements (IVAs) was the primary reason attributed to the write-offs, the prevalence of which had grown over recent years. It was added that whilst an IVA was in place, the Council was prevented from taking any further recovery action.

The amount invested in pooled funds comprising equity, property, and multi-assets was £19million. The market value of the Council's fund holdings as at the end of June was £20.5million, which represented an unrealised gain of £1.5million.

DECISION: Members noted the report on the Key Financial Indicators as at 30th June 2023.

REASON FOR DECISION: To receive a suite of the key financial indicators of the Council on performance in the current financial year up to 30th June 2023. To evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues as and when they may arise.

5 INTERNAL AUDIT ANNUAL REPORT 2022/23

INFORMATION: Members gave consideration to the annual report of the Internal Audit function 2022/23 which detailed the rationale for the resulting audit opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance.

In terms of audit outcomes where there was 'Limited Assurance' in 2022/23, Members were advised that they would receive an update in respect of the Horizon 120 review from the Corporate Director (Growth) at the upcoming meeting of the Governance and Audit Committee on 4th October 2023.

In respect of Strategic Risks, it was noted that the audit of 'Affordable Housing and Homelessness' (Strategic Risk 6) was not completed in 2022/23. Strategic Risk 6 had subsequently been included within the Internal Audit Plan for 2023/24.

DECISION: That Members noted and accepted the Internal Audit Annual Report 2023.

REASON FOR DECISION: The Public Sector Internal Audit Standards require the Head of Internal Audit to deliver an annual internal audit report and opinion that can be used by the organisation to inform its Annual Governance Statement.

The 2022/23 Annual Report from the Audit, Insurance and Fraud Manager is attached at Appendix 1, the conclusion from the 2022/23 work is that the Council's systems of internal control, and the internal control environment, are generally adequate with improvement required in some areas.

6 INTERNAL AUDIT PLAN 2023/24

INFORMATION: Members gave consideration to a report on the Council's Internal Audit Plan (the Plan) process and the draft Internal Audit Plan for 2023/24. Audits which had not been completed during 2022/23 had also been taken into consideration within the Plan.

The Public Sector Internal Auditing Standards (PSIAS) required the Chief Audit Executive to 'establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals.' The proposed Internal Audit Plan for 2023/24 therefore related audit work to the Council's strategic risks and corporate priorities. The Plan was prepared in accordance with the Accounts and Audit Regulations 2015 (Section 5) which required an effective internal audit of risk management, internal control and governance processes whilst taking PSIAS processes and guidance into account.

DECISION: That Members endorsed the Internal Audit Plan process and draft Internal Audit Plan for 2023/24.

REASON FOR DECISION: To ensure that there is an Internal Audit Plan for 2023/24 which complies with the Public Sector Internal Audit Standards.

7 INTERNAL AUDIT UPDATE, INCLUDING PROGRESS AGAINST THE 2022/23 AND 2023/24 INTERNAL AUDIT PLANS

INFORMATION: Members gave consideration to a report which provided an update on the Internal Audit activity of the Council, progress and performance against planned work and any other matters which affected the provision of the Internal Audit Service.

The 2022/23 Internal Audit Plan was approved by the Governance and Audit Scrutiny Committee (GASC) on 21st July 2022, with the 2023/24 Internal Audit Plan subsequently presented to the Governance and Audit Committee on 24th August 2023. The report provided Members with an update on the Internal Audit activity, progress and performance against planned work and any other matters which affected the provision of the Internal Audit Service. This was in accordance with the Governance and Audit Committee role and the requirements of the PSIAS.

The Internal Audit function was subject to an External Quality Assessment (EQA) in February 2023, the outcome of which had been presented in a previous report to GASC.

The report also provided an update on Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) applications made by the Authority.

DECISION: That Members:

- 1) Noted the progress and performance against the 2022/23 and 2023/24 Internal Audit Plans; and
- 2) Noted the progress in respect of addressing actions identified in the External Quality Assessment of the Internal Audit function.

REASON: The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Governance and Audit Committee, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.

8 LOCAL AUDIT UPDATE

INFORMATION: Members received a report which related to progress on the audit of the Council's accounts, as well as a commentary on the national backlog which was impacting on the completion of local audits. In order to support the delivery of the report, Steve Bladen, External Auditor at BDO LLP (BDO), was also in attendance for this item.

Phil Myers, Head of Finance at the Council, referred to the impact that the national backlog of Local Audits had had on Local Authorities and reported that the Council had several years of accounts where completion of the audit was delayed. It was highlighted that the Authority had met its requirement to produce a draft statement of accounts.

In respect of the audit for 2019/20, it was reported that although this was near to completion, there had been further delay due to resources within BDO.

In relation to the 2020/21 accounts, a substantial amount of the audit work had already been completed; accordingly, an interim report was provided to the Governance and Audit

Scrutiny Committee (GASC) on 3rd November 2022. In terms of the 2021/22 and 2022/23 accounts, the audits had not yet commenced.

Reference was made to a letter received by all Local Authorities on 18th July 2023 from Lee Rowley, MP and Parliamentary Under-Secretary of State for Local Government and Building Safety. The letter provided an update on the work that DLUHC and other key stakeholders had undertaken to identify proposals for addressing the backlog of local audits in England. The letter was accompanied by a cross-system statement which set out proposals to effectively reset the local audit system with the aim of restoring the assurance provided by timely audits, including proposed statutory backstop dates by when audits must be concluded. The proposals were still subject to further stakeholder engagement.

Steve Bladen, External Auditor, was then invited to provide the Committee with a verbal update on behalf of BDO. During Mr Bladen's address, context was provided on the reasons behind the delays to the completion of the audit accounts. The outstanding status of the 2019/20 accounts was originally attributed to value for money work that had taken place alongside the work on the financial statements. Further delays to the completion of the audit were generated by the national issue around infrastructure assets, although it was added that BDO had since addressed these.

It had been previously reported to the Committee that BDO would be in a position to complete the 2019/20 audit, unfortunately this had still not been possible due to BDO resourcing issues. It was now expected that the 2019/20 audit would be completed during October and November 2023, subject to required resources being available. Reference was made to the backstop date being proposed by the Government for the completion of the 2019/20 audits by 31st December 2023. It was confirmed that the continued delay was linked to BDO's own internal processes, and it was expected that a full audit opinion would still be able to be provided.

On the subject of the 2020/21 accounts, the audit work on these was also fairly well progressed, although BDO were not yet able to complete the work. BDO were again hopeful that they would be able to complete the work later in the year.

Finally, Members were advised that BDO's audit of the Council's 2021/22 and 2022/23 accounts had not yet commenced, and that a definitive timeline for the work could not yet be provided. It was added that there was a strong desire within Government, and indeed Local Government, for auditors to focus on the 2022/23 accounts, being the latest financial reporting period as these were more likely to be of interest to stakeholders.

In regard to an action agreed by BDO at the previous meeting of the Committee, Mr Bladen reassured Members that it was still his intention was still to provide Council Officers with a detailed plan or 'roadmap' that provided a timeline of upcoming audits. An exact timescale for the plan could not be provided, but a copy would be circulated to Members of the Committee in due course.

DECISION: That Members agreed to:

- 1) Note the report; and

- 2) Delegate to the Chair of the Governance and Audit Committee in consultation with the Section 151 Officer to agree any response by the Council to proposals for clearing the national backlog of local audits and to embed timely audits.

REASON FOR DECISION: To provide an update on the position regarding the audit of the Council's accounts, and to provide detail of recent proposals announced by the Department for Levelling-Up, Housing and Communities (DLUHC) for addressing the current national backlog on the completion of local audits.

9 TO APPROVE A REVISED RISK MANAGEMENT POLICY AND STRATEGY

INFORMATION: Consideration was given to a report which regarded the Council's revised Risk Management Policy and Strategy.

Members were advised that a review of the Council's risk management arrangements undertaken by the Audit, Insurance and Fraud Manager had identified the need to agree an updated Risk Management Policy and Strategy. Accordingly, the revised Policy and Strategy was considered and developed in conjunction with Management Board and the wider Corporate Management Team.

A number of the pertinent points within the report were highlighted, which included the key roles and responsibilities within the Council for ensuring that a clear structure existed for the coordination and review of risk information and ownership of the process. For example, the Governance and Audit Committee provided scrutiny and oversight of risk governance and profile whilst also monitoring the effectiveness of risk management.

Other key areas within the report, such as risk identification and risk assessment, risk appetite and tolerance and risk treatment and control, were then underlined. In terms of the Council's approach to its partnerships and the associated risk management considerations, it was recognised that guidance on this had been strengthened.

Reference was also made to a review by Corporate Management of the Council's Strategic Risks, which could impact on the Council's corporate priorities. An ensuing report would as such be presented to the Governance and Audit Committee at its next meeting on 4th October 2023.

Finally, Members were made aware that the upcoming Member Development Evening on 27th September 2023 would focus on Risk Management.

DECISION: That Members approved for referral to Cabinet the revised Strategic Risk Management Policy and Strategy.

REASON FOR DECISION: For the Governance and Audit Committee to consider and recommend to Cabinet a revised Risk Management Policy and Strategy.

10 TREASURY MANAGEMENT ANNUAL REPORT 2022/23

INFORMATION: Members gave consideration to a report on the Council's Treasury Management function.

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) required the Council to approve a

treasury management strategy prior to the commencement of the financial year, receive at least one mid-year report and then receive an annual report after the financial year-end. The Treasury Management Strategy for 2022/23 was approved by Full Council at its meeting on 20th February 2022. The Authority had invested substantial sums of money and continued to borrow in order to fund its capital programme and was therefore exposed to financial risks.

An economic background had been provided within the report by the Council's Treasury Management Advisors, Arlingclose. In terms of external factors, it was reported that the war in Ukraine continued to keep global inflation above central bank targets, and the UK economic outlook remained relatively weak with the chance of a mild recession.

As of 31st March 2023, the Authority had net cash and investments of £47.1million. The Capital Financing Requirement (CFR) was £21.5million, which denoted the amount of borrowing required in relation to previous capital expenditure. Of the CFR, the Council had externalised borrowing of £5.8million, with the balance of £15.7m being the amount of internal borrowing.

Members were advised of a change required to the figure for movement in respect of total investments which should have been stated as £8.9million. The summary would be updated accordingly before the report was presented to Full Council.

In respect of the Council's borrowing, as of 31st March 2023, the Council held two LOBOs (Lender's Option Borrower's Option) loans with Commerzbank which amounted to £6million. Over the course of the year, the Council had looked to refinance these loans with advice from Arlingclose. In May 2022, the decision was undertaken to prematurely repay the LOBOs and replace the borrowing with PWLB (Public Works Loan Board) debt. The outcome was a replacement loan of £6million from the PWLB at 2.59%, and a £1.4million premium paid to the bank funded by existing cash resources. In light of the high interest rate on the LOBOs when compared to rates at that time, cumulative savings of £890,000 were expected to be achieved over the remaining life of the new loans and were included as part of the 2023/24 budget.

Investment balances ranged between £45.0million and £72.1million, with an average amount invested across the year of £64.2million. £19million of the Authority's investments were invested in externally managed strategic pooled funds; their performance and continued suitability in meeting the Authority's medium-long-term investment objectives were regularly reviewed.

It was reported that DLUHC (Department for Levelling Up, Housing and Communities) had consulted on proposed changes to regulations which cover the accounting treatment of for fair value gains and losses on pooled investment funds and which were due to expire with effect from April 2023. The override was to be extended for two years and remain in place for the 2023/24 and 2024/25 financial years.

Interest paid on borrowing amounted to £173,000, with a further £112,000 of interest paid on finance leases. The borrowing costs were lower than budgeted due to the Council refinancing its LOBO debt.

Finally, it was reported that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

DECISION: That the Treasury Management Annual Report for 2022/23 be submitted to Full Council.

REASON FOR DECISION: To provide the Committee opportunity to review the draft Treasury Management Annual Report for 2022/23 and, if appropriate, to recommend any changes or to provide comments before the report is considered by Full Council.

11 **TO APPROVE THE ANNUAL GOVERNANCE STATEMENT FOR 2022/23**

INFORMATION: Consideration was given to a report on the annual review of the Council's governance, risk management and internal control arrangements, which had been undertaken in order to support the production of the Annual Governance Statement ('the Statement') for 2022-23. The published Statement was required to detail the governance and control framework in place in the Council during 2022-23 and up to the date of publication of the Statement.

In respect of planned activities in 2023/24, reference was made to the Corporate Peer Challenge to be undertaken during the Autumn of 2023. Following the External Quality Assessment of Internal Audit in February 2023, an action plan had been agreed to address recommendations and suggestions made by the external assessor, much of which was to be implemented over course of the current financial year. Reference was also made to the development of the Council's Agile and Flexible Working Policy, and, following the May 2023 Local Elections, the delivery of an extensive Member Development programme in conjunction with other externally sourced development opportunities.

DECISION: That Members agreed:

- 1) To approve the Annual Governance Statement for 2022-23 prior to it being signed by the Chief Executive and the Leader of the Council; and
- 2) To give delegated authority to the Section 151 Officer to make any necessary amendments to the Annual Governance Statement as a result of its review by the external auditor prior to inclusion in the final published Statement of Accounts.

REASON FOR DECISION: To evidence that the Council has conducted a review of the effectiveness of its system of internal control for 2022-23, and to ensure that the Annual Governance Statement for 2022-23 is correct and in order for the Leader of the Council and the Chief Executive to sign.

The meeting commenced at 7.15pm and closed at 9.00pm.

Councillor J Wrench
(Chairman)