

Minutes

Governance and Audit Scrutiny Committee

12th January 2023 at 7.15pm



Present

| Councillors | Present | Councillors | Present |
|---------------------------|-------------------|---------------------|---------|
| Mrs M Cunningham | Yes | T Walsh | Yes |
| P Euesden (Vice-Chairman) | Yes | Mrs L Walters | Yes |
| D Hume | No | D White | No |
| D Mann | Yes | J Wrench (Chairman) | Yes |
| S Rehman | Yes (from 7.25pm) | | |

In attendance:

Sebastian Evans – BDO External Auditor (remote attendance)
Dan Gascoyne – Chief Executive (from 7.30pm)
Mark Jarvis – Financial Services Manager
Aphrodite Lefevre – BDO Audit Director
Amanda Lindsell – Scrutiny Officer
Councillor J McKee – Cabinet Member for Finance and Corporate Transformation
Angie Mitchell – Audit, Insurance and Fraud Manager
Phil Myers – Head of Finance
Emma Wisbey – Legal and Governance Manager

31 **DECLARATIONS OF INTEREST**

INFORMATION: There were no interests declared.

32 **MINUTES**

DECISION: That the Minutes of the meeting of the Governance and Audit Scrutiny Committee held on 3rd November 2022 be approved as a correct record and signed by the Chairman.

33 **PUBLIC QUESTION TIME**

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

34 **STATEMENT OF ACCOUNTS FOR THE FINANCIAL YEAR 2020-21**

INFORMATION: Consideration was given to a report on the Statement of Accounts for the financial year 2020-21.

The Financial Services Manager said that:

- Once the final report had been received from the External Auditor any changes would be included as part of the accounts
- The Council's External Auditor, BDO LLP had commenced their final audit of the accounts in November 2021

The BDO External Audit Director stated that:

- The audit of the Council's accounts was nearing completion
- To date nothing had come to their attention from work completed that would result in modification of the audit opinion on the financial statements
- There were no exceptions to report in respect of the value for money arrangements
- No additional risks had been identified
- Following anticipated consultation and a bulletin issued on 10th January 2023 from the Chartered Institute of Public Finance and Accountancy (CIPFA) regarding the audit of Local Authority accounts a webinar would be held during the week beginning 16th January 2023 to provide guidance and support. It was anticipated that following the webinar it would be possible to complete the audit by the end of January 2023
- Three unadjusted errors had been identified totalling £2k which were considered trivial and non-material with limited year on year impact. The External Auditor was however required to extrapolate the error over a comparable population, which gave a projected value of £282k

In response to a question regarding how the extrapolated figure had increased from £2k to £282k, the BDO External Auditor said that the process used sample only testing and was a formula that he was confident accessed potential errors. The errors remained non-material and trivial.

In response to a question regarding the difference between break even and the budget gap within the assessment of going concern, the BDO External Auditor said that:

- The February 2022 Medium Term Financial Strategy forecast confirmed that the Council was forecast to break even at the end of 2021/22 and that the break even duty referred to a one year projection
- The budget gap across the extended period of the Medium Term Financial Strategy to 2025/26 was £1.2m, an improvement over the equivalent gap in the previous year's cycle which had been £1.6m. The budget gap was referenced within a four-year cycle.

The BDO Auditor said that:

- If the 2019/20 audit was concluded by the end of January 2023, then the 2020/21 audit would be anticipated to be concluded by the end of February 2023
- An extension had been requested and granted regarding the response to Housing Benefits, and it was hoped that a letter would be issued in the coming weeks
- The Assessment Team had been updated
- The updated pensions would be the only known change to what had already been circulated

DECISION: The Governance and Audit Scrutiny Committee approved the

recommendations as set out in the report:

- The current External Auditor's Audit Completion Report on the 2020/21 Accounts was noted
- The Letter of Representation by the Chairman of the Governance and Audit Scrutiny Committee, in consultation with the Section 151 Officer, was approved for certification
- The Council's Statement of Accounts for the financial year 2020/21, subject to any changes that may be necessary once the audit has been completed and a final Audit Completion Report has been issued, was approved
- Delegation to the Chairman of the Governance and Audit Scrutiny Committee, in consultation with the Section 151 Officer, was agreed to approve the final Statement of Accounts for 2020/21 prior to their publication
- Delegation to the Chairman of the Governance and Audit Scrutiny Committee, in consultation with the Section 151 Officer, was agreed, to receive and note the final Audit Completion Report and to distribute for information to the Members of the Committee

REASON FOR DECISION: To approve the Statement of Accounts for the financial year 2020/21, having due regard to the External Auditor's Audit Completion Report.

The BDO External Audit Director and Auditor left the meeting.

35 **TO RECEIVE A SUITE OF THE COUNCIL'S KEY FINANCIAL INDICATORS AS AT 30TH NOVEMBER 2022**

INFORMATION: Consideration was given to a report on the Council's key financial indicators for the period 1st April 2022 to 30th November 2022. The schedule of key financial indicators was attached at Appendix A to the report.

The Head of Finance advised Members of the Governance and Audit Scrutiny Committee that:

- The General Fund revenue budget for the year was £16.2m and that net expenditure at the end of November 2022 was £10m, which was £196k above profile
- The total budget for salaries for the year was £20.8m. Expenditure on salaries to the end of November 2022 was £13.9m and spend was over profile by £129k. The budget for the year included an Efficiency Factor of £300k to be achieved for the year of which £200k had been reflected in the profiled budget. This position included the recently agreed staff pay award of £1,925, a flat rate payment on all scale points backdated to April 2022
- The budget for commercial rents for the year was £3.0m and the amount invoiced to the end of November 2022 was £2.3m representing a shortfall against the profiled budget of £91k. A total of 221 commercial units were available for let with occupation falling slightly to 199
- Other controllable income budgets for the year totalled £42.8m with £26.6m profiled to be achieved at the end of November. Actual income was £27.2m, with an overachievement against profile of £586k
- Controllable expenditure budgets for the year totalled £41.3m with a profiled budget at the end of November 2022 of £25m and a reported variance of £562k
- Spending had been higher than the profiled budget particularly across operational service areas that had been impacted by higher fuel and other inflationary costs.

Additional costs have also been incurred at the Horizon 120 business park and I-Construct Innovation Centre

- The second quarter's review of the financial position and projected outturn for the year had been reported to Cabinet at the meeting held on 6 December 2022. This showed an overall projected positive variance of £126k after allowing for the pay award implemented from April 2022 and taking account of the recovery plans that were developed by senior managers following the first quarter review of the budgetary position. The projected improvement in the budgetary position was mainly due to additional income expected to be received over the second half of the year
- The total Council Tax collectable debit for the year was £109m. The collection rate as at the end of November was 75.4% (£82.3m collected), compared to a rate of 75.7% for the same period in 2021
- The total Business Rates collectable debit for the year was £43.2m. The collection rate as at the end of November was 74.8% (£32.3m collected), compared to a rate of 71.8% for the same period in 2021
- A total of 650 write-offs of Council Tax, with a value of £247k had been authorised in the year to date: 126 in respect of the current year and 524 in respect of previous financial years. A contributory factor in the increase in write-offs was the application of Individual Voluntary Arrangements (IVAs), the use of which had grown over the last few years and where initially the debt was written off and then collected via pre-agreed payment arrangements
- A total of 33 write-offs of Business Rates, with a net value of £59k, had been authorised in the year to date: 12 in respect of the current year and 21 in respect of previous financial years
- The amount of sundry debts owed to the Council, i.e. monies other than for Council Tax and Business Rates was £2.8m, of which £1.5m was in respect of Housing Benefit overpayments
- The proportion of supplier payments made within 30 days was 97.8% The target was 97%
- Up to the end of November, the average amount held as short-term investments was £47.5m on which £458k of interest had been secured, equivalent to an annualised return of 1.4%
- The amount invested in pooled funds comprising equity, property, and multi-assets, had been held at £19m. Dividend income was paid quarterly, and the amount received up to the end of November was £520k, equivalent to an annualised return of 4%. The total value of the Council's fund holdings at the end of November was £20.9m, which represented an unrealised gain of £1.9m

In response to questions from Members of the Committee, the Head of Finance said:

- That operationally it was sensible for some staff to remain at the Council's depot, although the lettable space available at the depot was being actively marketed
- Many central Government grants including the Revenue Support Grant, had been phased out. However, the New Homes Bonus and other specific modest grants remained available to local authorities
- Revenue from planning applications was down overall, despite the volume of planning applications remaining high, because major applications generated the most income, and the number of major applications had decreased. Additional income was being generated from Performance Agreements being undertaken with developers

- The 126 reported Council Tax write-offs was a reasonable average, as in 2021 there had been 142 write-offs. Individual Voluntary Arrangements lengthened the process, as a claim could only be restarted if a payment was missed

DECISION: The report on Key Financial Indicators as at 30th November 2022 was noted.

REASON FOR DECISION: To evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues as and when they may arise.

36 DRAFT TREASURY MANAGEMENT STRATEGY FOR 2023/24

INFORMATION: Consideration was given to a report on the draft Treasury Management Strategy for 2023/24, which was attached to the report as an Appendix. Figures provided in the Strategy at this stage were noted as provisional and they would be updated to reflect the Cabinet's final budget recommendations to Full Council. It was not expected that any changes would significantly alter the Strategy as currently drafted.

The Financial Services Manager said that:

- The estimated financial implications of Treasury Management activities were set out in the tables and indicators contained in the draft Strategy. These showed an anticipated increase in prudential borrowing based on the Council's current capital investment plans
- The Council's proposed budget for investment income in 2023/24 was £1.3m
- Interest payable on current borrowing was £143k per annum and £70k in relation to the premium repayment in respect of the refinanced debt. With an increase in prudential borrowing anticipated in 2023/24, interest costs were forecast to rise by up to a further £405k on a full-year basis. However, the actual increase in cost in 2023/24 would be subject to the timing of any new borrowing and the actual rate of interest incurred at the time.

In response to questions from Members of the Committee, the Financial Services Manager said that:

- It was entirely likely that external borrowing would be necessary
- The significant decrease in long term investments demonstrated a return to normal levels of investment following the release of the large sum of Government funding which had been held, but had now been allocated as grants

DECISION: Members approved the draft Treasury Management Strategy for 2023/24 and recommended its submission to Full Council.

REASON FOR DECISION: The Council's Constitution requires that prior to consideration by Full Council, the draft Treasury Management Strategy is reviewed and scrutinised by the Governance and Audit Scrutiny Committee.

37 FRAUD UPDATE

INFORMATION: Consideration was given to the Fraud Update report. The Public Sector Internal Audit Standards (PSIAS) require the 'Chief Audit Executive' (the Audit, Insurance and Fraud Manager) to periodically report significant risks and controls, including fraud

risks. The report provided Members of the Committee with an overview of fraud affecting Local Authorities, and the work undertaken by staff including the Audit, Insurance and Fraud, and Revenues and Benefits Teams.

The Audit, Insurance and Fraud Manager said that:

- The Financial Cost of Fraud 2021' (Crowe / University of Portsmouth) reported global fraud data and, on the basis of fraud loss measurement exercises, estimated that 'fraud and error losses in any organisation would be expected to be at least 3%, probably almost 6.5% and possibly more than 10%'. It further commented on the increase in fraud since the advent of the Covid-19 pandemic, in both Covid-19 specific frauds and scams, and in fraud driven by the economic situation, with risks being both internal and external to organisations
- The Council undertook proactive checks before grants were allocated
- The Audit Team also conducted checks and had given full assurance ratings with no recommendations, although some actions were required

The Audit, Insurance and Fraud Manager said that the following actions were taken to mitigate the risk of undetected fraud in Covid-19 Additional Relief Funds:

- An application form was required to be completed for each grant by the business rate account holder, and in respect of Discretionary Grants, additional supporting information was also required. All information was evaluated before any grant was approved for payment
- For each application, the applicant confirmed by signing the form that if they falsified their records to gain additional grant money they would face prosecution and any grant paid would be recoverable
- For each application the applicant confirmed by signing the form that the payment of the grant would not contravene State Aid rules
- For each grant to be processed, the details on the grant application form, company number, bank account and sort code details were checked against details held on the Council's records, and if the details did not match the application was not processed
- Application forms were checked against business rate accounts to ensure that business names and bank details matched those on the application form, and where an application warranted further investigation this was completed by a member of the Revenues Team and reviewed by the Recovery and Revenues Manager

In response to a question, the Audit, Insurance and Fraud Manager agreed to seek figures from the Revenues and Benefits Team to clarify how many applications had not been processed as a result of failing the checks and to report this information back to the Committee.

In response to another question, the Audit, Insurance and Fraud Manager said that the significant increase in cases closed on Housing Benefit Overpayments in 2022/23 (£169,004.29) compared to £84,382.44 in 2021/22 was as a result of significant changes to the investigation environment. The current environment enabled interviews under caution and meant that Officers were better placed to identify and proceed with investigations where appropriate.

DECISION: The Fraud Update was noted.

REASON: The Public Sector Internal Audit Standards (PSIAS) require the ‘*Chief Audit Executive*’ (the Audit, Insurance and Fraud Manager) to periodically report significant risks and controls, including fraud risks. The report provided Members of the Committee with an overview of fraud affecting Local Authorities, and the work undertaken by staff including the Audit, Insurance and Fraud, and Revenues and Benefits Teams.

38 **INTERNAL AUDIT UPDATE INCLUDING PROGRESS AGAINST INTERNAL AUDIT PLAN 2022/23**

INFORMATION: Consideration was given to an Internal Audit Update including progress against the Internal Audit Plan 2022/23. The 2022/23 Internal Audit Plan had been approved by the Governance and Audit Scrutiny Committee on 21st July 2022. The report provided Members of the Committee with an update on Internal Audit activity, and progress and performance against planned work and any other matters affecting the provision of the Internal Audit Service. This was in accordance with the Governance and Audit Scrutiny Committee’s role and the requirements of the Public Sector Internal Audit Standards (PSIAS).

The Audit, Insurance and Manager said:

- The following audits had been completed since the last progress report (3 November 2022):
 - Planning – Significant Assurance
 - Community Safety and Safeguarding Partnerships – Full Assurance
 - Constitution – Full Assurance
 - CCTV GDPR compliance – Limited Assurance
- An appointment had been made to the post of Auditor (Career Grade), who would be joining the Council in February 2023
- A provider for the External Quality Assessment of the Council’s Internal Audit function had been sought and the assessment would take place in February 2023
- There had been no Regulation of Investigatory Powers Act or Investigatory Powers Act applications in 2022/23.

In response to a question about the limited assurance outcome to the audit of CCTV and GDPR:

The Audit, Insurance and Manager said that:

- The direction of travel was very strong
- Officers had taken action on the body video policy review
- Actions were in place to resolve the remaining issues

An update was requested about audits which had been identified as having limited assurance in previous years and whether progress had been made in moving from limited to significant assurance.

The Audit, Insurance and Manager said:

- Progress had been made to move from positions of significant or limited to completing recommendations
- There was an ongoing report updating audits
- An update had been received from the Corporate Director regarding Manor Street, Braintree in particular, and that an independent review was underway

DECISION: The progress and performance against the 2022/23 Internal Audit Plan was noted.

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

The meeting commenced at 7.15pm and closed at 8.25pm.

Councillor J Wrench
(Chairman)