

Minutes

Governance and Audit Committee

17th January 2024 at 7.15pm



Present

Councillors	Present	Councillors	Present
Councillor J Baugh	Yes	Councillor R Ramage	Yes
Councillor J Edwards (Vice Chairman)	Yes	Councillor R van Dulken	Yes
Councillor M Green	Yes	Councillor T Walsh	Yes
Councillor A Hooks	Yes	Councillor L Walters	Yes
Councillor L Jefferis	Yes	Councillor J Wrench (Chairman)	Yes
Councillor A Munday	Yes	Councillor B Wright	Yes
Councillor G Prime	Yes		

Officers in attendance:

Suzanne Bennett – Corporate Director (Finance)
Mark Jarvis – Financial Services Manager
Jessica Mann – Scrutiny Officer
Angie Mitchell – Audit, Insurance and Fraud Manager
Phil Myers – Head of Finance

Also in attendance:

Emma Larcombe – KPMG UK

24 **DECLARATIONS OF INTEREST**

INFORMATION: There were no interests declared.

25 **MINUTES**

DECISION: The Minutes of the meeting of the Governance and Audit Committee held on 4th October 2023 were approved as a correct record and signed by the Chairman.

26 **PUBLIC QUESTION TIME**

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

27 **VERBAL UPDATE ON THE EXTERNAL AUDIT FUNCTION OF THE COUNCIL**

INFORMATION: The Chairman was pleased to introduce E Larcombe, who was in attendance on behalf of KPMG UK, to the meeting. P Myers, Head of Finance, was then invited to provide a verbal update on the Council's External Audit function.

During his update, P Myers set out the Council's disappointment with the lack of progress made by BDO LLP in respect of the outstanding audit of accounts for 2019/20, 2020/21, 2021/22 and 2022/23. Although delays were in part attributed to national issues concerning local audit functions, this was exacerbated by the resource issues within BDO and their decision to prioritise NHS work. BDO had also failed to provide a roadmap for the completion of the audits. A consultation was expected to be issued by the government regarding its proposed 'reset' of the system and backstop date to address all outstanding audits up to and including the 2022/23 reporting year.

Members were advised that the Council's newly appointed external auditors, KPMG UK, had commenced with their work for 2023/24; however, progress on the financial statement audit work would be impacted by the delays experienced in resolving earlier years. The Committee were advised that it is likely that the 2021/22 and 2022/23 accounts would be disclaimed as part of the reset process.

Members then expressed their extreme disappointment and frustration with BDO's lack of progress and failure to fulfil their promises, which was deemed unacceptable. In response to a question regarding fees, Members were advised that the Council expected to be charged only for the work that BDO had completed. It was added that the Council had no legal powers in terms of securing compliance from BDO, although the proposed backstop date for outstanding audits would be a statutory deadline that the auditors would have to meet.

In response to Members' comments, the Chairman agreed to request a formal explanation from BDO setting out their reasons for failing to complete the work in respect of the outstanding audits.

E Larcombe, KPMG UK, reassured the Committee staffing resources had been implemented within KPMG to properly resource audits. KPMG were waiting on updated guidance from the National Audit Office in terms of changes to the NAO Code for auditors, which could have an impact on their planned work.

The Chairman thanked E Larcombe for her assurances to the Committee and echoed the frustrations expressed by Members, agreeing that any actions the Council could take to hold BDO accountable for their failings would be worthwhile.

28 **TO RECEIVE A SUITE OF THE COUNCIL'S KEY FINANCIAL INDICATORS AS AT 30TH NOVEMBER 2023**

INFORMATION: Members received a report on the Key Financial Indicators of the Council up until 30th November 2023 which included a brief summary of the Second Quarter Financial Review and projected outturn for the 2023/24 year. P Myers, Head of Finance, was invited to present the report.

In terms of the Second Quarter, the financial review gave a projected overall adverse variance of £6,000 for the year; this indicated a shift from the First Quarter, where there had been a positive variance of approximately £218,000. The main reason for the change in the Second Quarter was a projected shortfall in the income generated from planning applications, which did not reflect the recent announcement by government to increase statutory planning fees from 6th December 2023. The impact of this change would be reflected in the Third Quarter review.

Staffing expenditure across services was projected to be overspent by £18,000 after taking the corporate efficiency target of £300,000 into account. An additional staffing variance was also projected in respect of the General Fund due to a lower recharge of project management costs to capital projects. It was expected that the additional cost of the staff pay award, estimated at £606,000, would be covered by extra income for which a virement had been agreed at Full Council on 11th December 2023. The additional ongoing cost of the pay award had been accounted for within the budget plans for 2024/25.

Other expenditure was forecast to be £663,000 over budget, due mainly to increased housing benefit costs that had arisen from the demand for temporary accommodation, and higher costs from supported housing schemes. Also contained within the expenditure variance was the unbudgeted costs incurred in 2023/24 in relation of the Wethersfield Asylum Centre appeal of £235,000. It was noted that a budget of up to £300,000 for the Council's own legal costs was approved by Full Council on 11th December 2023 and that these costs should be met from the General Fund balances.

Capital expenditure incurred to the end of November 2023 was £2.7million against a profiled budget of £6.8million, and included projects such as the Halstead Community Grants, ICT Server and infrastructure upgrade at Causeway House, planned maintenance, etc. There was currently a projected underspend of £218,000 across the capital programme which was in relation to the Victoria Square and Plaza projects. Capital receipts estimated to be generated in-year totalled £3.9million and included receipts from Right-to-Buy sales and from the sale of Council-owned land and grant of access rights. Actual receipts at the end of November totalled £589k.

In terms of the Council's commercial property portfolio, there were 273 lettable units, which included offices and units at I-Construct, the Plaza, Victoria Square and available spaces within Causeway House. As at the end of November 2023, 250 units had been let representing an occupation rate of 92%. A number of the vacant units were close to being let or were awaiting legal completion.

The collection rates in respect of Council Tax and Business Rates continued to benchmark favourably against that achieved by other Essex billing authorities within the same period. Members were advised that the figure reported in paragraph 3.4.5 of the report: the total Council Tax collectable debit for the year should have stated £116million.

In respect of write-offs, these continued to be driven by Individual Voluntary Arrangements (IVAs), where collection of debt was via pre-agreed payment arrangements. There had been a total of 808 write-offs of Council Tax, and a total of 33 write-offs in relation to Business Rates.

The value of sundry debts owed to the Council as at the end of November 2023 was £3.1million, of which £1.4million was in respect of Housing Benefit overpayments. The value was expected to decrease by the end of the year. The proportion of supplier payments made within 30 days was 98.4% against a target of 98%. The average amount

held as short-term investments up to the end of November was £49.8million, of which £1.59million of interest had been secured.

Lastly, Members were informed that the amount invested in pooled funds was £19million. The amount of dividend income due to the end of November 2023 was £560,000, and the total value of the Council's fund holdings was £20.4million.

Members were then invited to ask any questions they had in relation to the report. It was agreed to include gross staffing and other expenditure figures within future reports so that Members could understand the quantum of expenditure being incurred.

DECISION: Members noted the report of the Key Financial Indicators as at 30th November 2023 and the update on the Second Quarter Financial Review and projected outturn for 2023-24.

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 November 2023, including an update on the Second Quarter Financial Review and projected outturn for 2023-24. To evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues as and when they may arise.

29 **INTERNAL AUDIT UPDATE, INCLUDING PROGRESS AGAINST THE 2023/24 INTERNAL AUDIT PLAN**

INFORMATION: The Chairman invited A Mitchell, Audit, Insurance and Fraud Manager, to present a report which provided Members with an update on the Internal Audit function of the Council, and included progress and performance against planned work and any other matters which affected the provision of the Internal Audit Service.

Since the last report to the Committee on 4th October 2023, a total of six audits had been completed. It was also confirmed that there had been no RIPA (Regulation of Investigatory Powers Act) or IPA (Investigatory Powers Act) applications made in 2023/24 by the Authority to date of the current report.

DECISION: Members noted the progress and performance against the 2023/24 Internal Audit Plan.

REASON FOR DECISION: 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.

The 2023/24 Internal Audit Plan was approved by the Governance and Audit Committee on 24th August 2023. This report provides Members with an update on the Internal Audit activity, and progress and performance against planned work and any other matters affecting the provision of the Internal Audit Service. This is 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 was detailed in a separate report to GASC. This report identifies progress in respect of addressing actions identified in this and the previous EQA.

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

30 **FRAUD UPDATE**

INFORMATION: The Chairman invited A Mitchell, Audit, Insurance and Fraud Manager, to present a report which updated the Committee on the Council's fraud and corruption arrangements.

The Public Sector Fraud Authority's 'Cross-Government Fraud Landscape Annual Report 2022' identified an overall trend of increasing levels of detected, prevented and recovered fraud and error. The trend in terms of fraud and error was in part attributed to the impacts of pandemic related expenditure where the inherent risk of fraud was greater. It was noted from the report that procurement fraud accounted for the greatest value of both external and internal fraud.

In response to questions raised by Members, A Mitchell agreed to circulate details of the checks that were undertaken by the Revenues and Benefits Team in relation to the Business Grant applications awarded in connection with the Covid-19 pandemic.

DECISION: Members noted the report.

REASON FOR DECISION: The Governance and Audit Committee functions include monitoring the Council's counter fraud and corruption arrangements.

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 provides Members 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, in this respect.

31 **DRAFT TREASURY MANAGEMENT STRATEGY FOR 2024/25**

INFORMATION: The Chairman invited M Jarvis, Financial Services Manager, to provide a report on the Council's draft Treasury Management Strategy for 2024/25, prior to its presentation at Full Council.

External factors which affected the treasury management activities of the Council included higher interest rates and inflation and a weakening economic outlook, an uncertain political climate due to the upcoming general election, as well as the impacts of the war in Ukraine and the Middle East. It was added that inflation rates continued to remain relatively high, whilst interest rates were believed to have peaked.

In respect of the local context, the Council's Capital Financing Requirement (CFR) had increased in recent years due to an increase in prudential borrowing as part of the agreed financing for several strategic capital projects. The increased borrowing requirement was being met through internal borrowing, which led to reductions in investment balances. The 'Liability Benchmark' was a measure of borrowing need based on an alternative strategy which aimed to show the lowest risk level of borrowing. Under this strategy, investment balances and cash would be kept to a minimum level of £10million at each year-end in order to maintain sufficient liquidity and minimise credit risk, whilst maintaining investments at a level that ensured the Council retained 'professional status' for its investment activities. Under this alternative strategy, the borrowing requirement would be

minimised and exposure to investment risks reduced; however, this may also result in the need to divest from long-term pooled funds which would have an adverse impact on the revenue account.

In terms of borrowing, the Council currently held £5.4million of loans which were refinanced in 2022. Borrowing was not expected to be required over the short-term; however, this would be dependent on the timing of pipeline projects and funds received through anticipated capital receipts. It was possible that additional borrowing would be incurred to pre-fund future years' requirements.

With regards to financial implications, the budget for investment income in 2024/25 was £2.1million, which represented an overall estimated return of 4.75%. The interest payable on current borrowing was £134,000 per annum, and £70,000 in relation to the premium repayment in respect of refinanced LOBOs (Lender Options Borrower Option). It was added that the budget set aside for the Minimum Revenue Provision was £1.03million plus additional annual lease repayments of £200k.

DECISION: Members recommended the submission of the Draft Treasury Management Strategy 2024/25 to Full Council.

REASON FOR DECISION: The Council has adopted the Code of Practice for Treasury Management in Public Services published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the Council to approve a Treasury Management Strategy before the start of each financial year. A draft strategy is attached to this report for the 2024/25 financial year. The Strategy will be included as part of the Budget report to be considered by Full Council on 19th February 2024.

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 Committee.

The meeting commenced at 7.15pm and closed at 8.37pm.

Councillor J Wrench
(Chairman)