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AUDIT COMMITTEE

18 NOVEMBER 2021

Present: Councillors Rankin (Chair), Battley (Vice-Chair), Beaney, Sinden and Chowney

123. APOLOGIES FOR ABSENCE

None received.

124. DECLARATIONS OF INTEREST

None.

125. MINUTES OF THE LAST MEETING

RESOLVED – that the minutes of the meeting held on 29th July 2021 be approved as a true record.

126. GRANT THORNTON AUDIT COMPLETION REPORT- AUDIT FOR THE YEAR ENDED 31 MARCH 2020

The Chief Finance Officer reported to the Audit Committee to consider the matters raised by the Council's external auditors (Grant Thornton) in respect of their Governance Report. This includes the audit opinion of the Council's 2019/20 accounts, and their value for money assessment of the Council.

Darren Wells and Andy Conlan from Grant Thornton addressed the committee and highlighted the key points. It is acknowledged the 19/20 audit has taken a long time. The pandemic working has affected the auditing team and authorities and auditors have found it difficult to catch up. There are plans to conclude the audit in early December. It was highlighted that there are still a number of adjustments and the volume of adjustments is still too high for the size of authority. The control recommendations from the 18/19 Audit have been reviewed and there are still some changes to be implemented, a review of debtors and creditors classification came with the recommendation that management strengthen future controls for review and reconciliation of debtor and creditor balances, and to produce clear reconciliations to subsystems.

Three further control recommendations have been made from the 19/20 audit, These are that management strengthen future working papers in this area to provide a more detailed explanation of the rationale for these sensitive accounting estimates. That where the Authority team makes adjustments to the accounts, a log of accounts changes is kept which makes clear why the changes have been made and references into working papers. It is also recommended that where the professional valuer advises useful lives for assets which are revalued that these are updated in the fixed asset register. All three recommendations have been discussed and agreed by the finance teams.

AUDIT COMMITTEE

18 NOVEMBER 2021

Councillors asked regarding a statement in the audit report about the outturn position 2019/20. The Chief Finance Officer updated the committee on the Medium Term Financial Strategy which is going to cabinet on 19th November 2021 identifies that the reserves are likely to drop below the recommended level without in year action. One of the areas of most concern is the spiralling costs of dealing with homelessness.

Councillors asked the auditors regarding the adjustments made to accounts and what can be done differently. The auditors updated the committee that control recommendations have been put forward including working papers being dual reviewed.

RESOLVED (unanimously)

That the report and action plan be accepted.

Reasons

Compliance with statutory requirements and good practice. The Council is accountable for the use of public money and continuously seeks to improve Value for Money. The Council's external auditors are required to submit a report to the Council's Audit Committee on any significant matters that are identified during their audit.

127. EXTERNAL AUDIT PLAN - YEAR ENDING 31 MARCH 2021

The Chief Finance Officer handed over to Darren Wells from Grant Thornton who addressed the committee and highlighted the key points. The audit plan was presented to the Audit Committee to inform councillors of Grant Thornton's audit plan for the audit of the Council's accounts and Value for Money arrangements. The report from Grant Thornton highlights the risk based approach to the audit and the main risks they have identified. The Audit plan for 2021 sets out the environment for the year. Key matters are a new code of audit practice has been set by the National Audit Office, an adoption of new auditing standards and the impact of Covid 19 pandemic. A commentary will be needed on governance, financial sustainability, and economy efficiency and effectiveness. Reporting of value of money will have a 3 month grace period put in by the National Audit Office once finance statements have been signed. Key risks are revenue recognition and management override controls.

There are new auditing standards regarding estimates. The changes mean that a greater depth of understanding is needed of how the estimates are obtained. There will also need to be further explanation of how the audit committee are made aware of the estimates that are included in the finance statements.

Darren Wells from Grant Thornton highlighted to the committee the risks identified. These include revenue recognition, management over-ride of controls, valuation of land and buildings, valuation of the Council pension fund and valuation of investment properties. A risk in respect of Covid-19 grants is whether these have been recognised correctly – between monies for the Council and monies distributed to businesses for example.

Councillors asked questions regarding the increase in the audit fees. Darren Wells from Grant Thornton explained that the increase in value for money work will impact

AUDIT COMMITTEE

18 NOVEMBER 2021

on the work needed. Government commissioned a review which a recommendation of audit fee increases for local authorities. The amount in the report is an estimate of the fee.

Councillors asked regarding the plan for year ending 31st March 2022. Darren Wells from Grant Thornton explained it may be possible to produce the Audit Plan report before the end of this year (normally produced in advance of the year being audited) but that it would be extremely difficult given that other audits all remain unfinished. The Chief Finance Officer informed the committee that Grant Thornton plan to start the 2020/21 in January 2022 and that it will be a very complex year to audit given the challenges on the Collection Fund and grant monies received (the opinion would normally have been expected to be received by the end of September 2021).

RESOLVED (unanimously)

To accept the External Auditor's Audit Plan

Reasons

The Audit Committee, as required by the Constitution, receives and notes the External Auditor's Audit Plan on behalf of the Council.

128. ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2020/21

The Chief Finance Officer reported to the Audit Committee to provide the opportunity to scrutinise the Treasury Management activities and performance of the last financial year: this includes unaudited figures.

There has been cash savings from not borrowing externally. The debt at the end of March 2021 has not shown an increase as expenditure has been funded by internal borrowing. This is a short-term saving with a potential risk in the future – should borrowing rates increase significantly. Performance regarding gross interest receivable and net borrowing costs are very close to what the revised budget was set at. Investment rates stayed low throughout 2020/21 and there wasn't an expected increase due to Covid-19 and the impact on the economy. The Property Fund and Diversified Income Fund performed well last year and was highlighted in the report.

Councillors asked regarding the proportion of borrowing used to buy commercial properties. The Chief Finance Officer informed the committee that some years ago money was set aside for income generation this was used for Muriel Matters House, the Aldi site on Bexhill Road. Lacuna House on Havelock road is another site.

The committee discussed commercial units held by the council. The Chief Finance Officer explained that the council have a diversified portfolio of different commercial properties. This had always been planned and has helped offset the decrease in retail valuations. The demand for industrial units is still high.

The chair thanked the finance team for their work from himself and the other members of the committee.

RESOLVED (unanimously)

AUDIT COMMITTEE

18 NOVEMBER 2021

To consider the report – no recommendations are being made to amend the current Treasury Management Strategy as a result of this review.

Reasons

To ensure that members are fully aware of the activities undertaken in the last financial year, that Codes of Practice have been complied with and that the Council's strategy has been effective in 2020/21.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be a further report forthcoming on Treasury Management covering a review of the current financial year i.e. the Mid-year review.

129. TREASURY MANAGEMENT MID YEAR REPORT 2021-22

The Chief Finance Officer reported to the Audit Committee on the treasury management activities and performance midway through the current year. It provides the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Cabinet and Council to take account of any issues or concerns that have arisen since approving it in February 2021.

Highlighted was the further reduction in overall borrowing. The capital spend is going to be lower than estimated. Some redevelopment projects have been moved to next year this included Harold Place and Cornwallis Street projects. Net internal borrowing projects some borrowing in this financial year, and this should remove some risk. Investments are at a reasonably high level. The Council is well below the borrowing limit set at the beginning of the year. Debt Maturity graph showed in 2033 a spike, but money is being set aside for repayment or a decision can be made to refinance the loan.

Revised Codes of Practice on Treasury Management are being produced by CIPFA which will bring in new reporting requirements and controls which may necessitate some additional training.

Councillors asked regarding the update of CIPFA's position on local authority commercial investments. The revised code will emphasise that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities. The Chief Finance Officer informed the committee that the Government are saying that they don't want to see borrowing being used to fund schemes that are purely for yield e.g. commercial property acquisitions that do not form part of regeneration plans.

Councillors asked if interest rates would change by 3 quarters of a percent would that be a good or bad thing. The Chief Finance Officer informed the committee that an increase in interest would not expose the Council to big risks on its existing loans portfolio, due to borrowing at fixed rates, and would help achieve a better return on investments – providing that it still has significant balances to invest. There remains a risk on the amounts internally borrowed.

RESOLVED (unanimously)

Audit Committee agree the Mid-Year report.

AUDIT COMMITTEE

18 NOVEMBER 2021

Reasons

The Code of Practice on Treasury Management requires, as a minimum, a mid-year review of the Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved (February 2021). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet, Audit Committee and full Council.

130. CIPFA FINANCIAL MANAGEMENT CODE

The Chief Finance Officer handed over to Senior Finance Projects Officer who reported to the committee that in October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published “The CIPFA Financial Management Code”. The purpose of the report is to provide Members with an overview of the Management Code, along with the initial self-assessment that has been undertaken by officers to identify compliance and areas for further consideration. The Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and sought to rely on the local exercise of professional judgement backed by appropriate reporting. The principles are designed to assist in determining whether, in applying standards of financial management a local authority is financially sustainable. There are six headings, Organisational leadership, Accountability, Transparency, Standards, Assurance and Sustainability. A self-assessment has been completed. The right policies and procedures are in place, but a number of areas don't fully meet the requirements. Likewise some areas are compromised due to the covid pandemic e.g external audit reporting, regular finance reports to O&S committee. A couple of areas have been flagged with the recommendation of using a ‘option appraisal’ methodology with regards to value for money. It is also recommended to have a quarterly risk management working group to discuss emerging risks.

The committee discussed ‘option appraisal’ methodology. The Chief Finance Officer explained that in the Treasury’s green book, appraisal is based around achieving value for money, and nationally there is greater focus on the net benefit to the community. It was discussed that to identify a transparent scheme that shows value for money results in a un-complicated way will be difficult and the Council should not try to reinvent the wheel as this would be a time consuming model to produce.

The Council sees itself as in a generally compliant position although the appraisal element will not be in place for this year. There are improvements to be made as covid 19 effected last year’s operations.

RESOLVED (unanimously)

The Committee agree the outcome of the self-assessment to demonstrate compliance with the CIPFA Financial Management Code; The areas identified in the review where improvements can be made have been considered by the Council’s Corporate Management Team.

Reasons

To comply with CIPFA guidance on the Financial Management Code and ensure Members are aware of the position of the Council with regard to it’s self-assessment

AUDIT COMMITTEE

18 NOVEMBER 2021

and the future work that needs to be done to ensure higher scoring in future assessments.

131. EXTERNAL AUDITOR APPOINTMENT

The Chief Finance Officer handed over to the Senior Finance Projects Officer who set out proposals for appointing an external auditor to audit the Council's accounts for a five-year period from 2023/24.

The current year and the next year will be audited by Grant Thornton. The appointment will need to be done by the end of 2022 and requires a long lead in time. The council has three options. These would be to appoint our own auditor panel, to act jointly with other authorities or to opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

The committee asked that if joining the PSAA would mean having a different auditor in future years. The Senior Finance Projects Officer explained how there is a pool of nine auditor firms, and one would be appointed. It was noted it is good practice to not become too familiar with an auditing team and the PSAA prefer to move the teams from authority to authority.

RESOLVED (unanimously)

The Audit Committee recommends that the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors for five financial years from 1 April 2023.

Reasons

An external auditor for the audit of the accounts for 2023/24 must be appointed before the end of 2022. The council needs to let Public Sector Audit Appointments (PSAA) know if it wants to opt into the sector-wide procurement conducted by PSAA by 11 March 2022. The decision of Full Council is required

132. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

None.

(The Chair declared the meeting closed at. 20:11)