

## AUDIT COMMITTEE

7 DECEMBER 2023

Present: Councillors Foster (Chair), Webb (Vice-Chair), Collins, Marlow-Eastwood and Sinden

In attendance: Kit Wheeler Chief Finance Officer, Mary Kilner Chief Legal Officer, Darren Wells External Auditor (Grant Thornton)

### 6. APOLOGIES FOR ABSENCE

None received.

### 7. DECLARATIONS OF INTEREST

Councillor	Item	Interest
Cllr Webb	<i>All items</i>	Personal – Is an East Sussex County Councillor, Cabinet member 2021-2022
Cllr Marlow-Eastwood	<i>All items</i>	Personal – Is an East Sussex County Councillor

### 8. MINUTES OF THE LAST MEETING

**RESOLVED** – that the minutes of the meeting held on 9<sup>th</sup> November 2023 be approved as a true record.

### 9. EXTERNAL AUDITOR'S ANNUAL REPORT ON HASTINGS BOROUGH COUNCIL 2021/22 AND 2022/23

The Chief Finance Officer gave an introduction and highlighted that the report covers two financial years.

The External Auditor presented a report to summarise the principal matters arising because of the audit and assurance work carried out by the Councils External Auditors Grant Thornton. The External Auditor highlighted that for financial sustainability there are significant weaknesses. The finance position is extremely challenging, and the reserves have had to be used. The planned savings for the two financial years was below 100% with 2021-22 being 82% delivered and in 2022-23 78% savings have placed a greater draw on reserves. The second significant weakness is regarding capital investments made. With regards to the Cornwallis Hotel development the External Auditor believes there was not good due diligence completed and that procurement rules were not followed. Regarding Governance the external Auditor highlighted issues in 2021 with internal audit. The improvement from bringing in Orbis should be seen going into 2023-24. It was highlighted that Cabinet

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review risk at an informal meeting and not a formal meeting and that this is a weakness. There are other elements that are completed at informal meetings, and this makes it unable to be scrutinised or audited. A Key recommendation is that the Council reviews its internal governance arrangements to ensure that business is formalised, and that scrutiny is then able to discharge its responsibilities.

Work is taking place now on the 2020-21 Financial statements. The Government is proposing a backstop and this could happen in March 2024 or September 2024. Because of this the 2021-22 and 2022-23 financial statements are not to be started. The reset would mean that the External Auditor would start in earnest on the 2023-24 financial statements audit and then undertake a programme of work to get assurance on the opening balances for 2023-24.

Twelve recommendations are made in the report. The committee asked questions.

The Chair invited Councillor Patmore (Chair of Overview and Scrutiny) to join the meeting.

Councillor Sinden asked what would happen to the financial statements for 2021-22 and 2023-24? The External Auditor answered this is being assessed and there are no clear answers yet.

Councillor Marlow Eastwood asked regarding Cornwallis Car Park redevelopment and at what level the serious errors were made? The External Auditor explained it was not at a junior level and was Senior Officers and Senior members through Cabinet at the time of the decision making.

Recommendation 1:

Councillor Collins asked regarding the savings and income targets not being met and if the budget targets should be raised? The Chief Finance Officer answered that there are now regular monitoring reports which should highlight where targets are not being achieved and give time to address them. By holding a budget planning meeting in December, it will give the Council a head start to achieve the budget targets.

Councillor Webb asked regarding the direction of travel for the risk identified because of contract procedure breach. The External auditor agreed that the direction of travel is a flat line rather than declining as per the report.

Recommendation 2:

Councillor Patmore asked regarding the delay to the asset management plan and the recommendation to reevaluate each asset so that the Councillors understand the risk and rewards. The Chief Finance Officer explained the CIPFA Asset management plan should be ready early in 2024 and that capacity to review every asset would need to be reviewed.

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Councillor Collins asked regarding Cornwallis Street redevelopment and if the auditors would have been able to identify the errors earlier? The External Auditor answered that it could have been.

Councillor Sinden asked regarding value for money report for 2023-24. The External Auditor explained that the report in this agenda makes the External Auditor value for money report up to date.

Councillor Patmore asked regarding older investments on retail units and that the Overview and Scrutiny committee have not been able to scrutinize these investments. The Chief Finance Officer explained that previous committees would have scrutinised the decisions made on the investments. Councillor Webb highlighted that it was the officer's advice in 2019 to invest into retail.

Councillor Marlow-Eastwood asked regarding when the Asset management plan will be ready? The Chief Finance Officer explained the report will be ready in the new year. CIPFA have identified some assets that could be bought forward for disposal or change of use.

Councillor Collins asked regarding the Cornwallis Street redevelopment and what role the Chief Executive should have been in terms of oversight of the decision making process. The External Auditor answered that the decision making holistically was not strong enough and the ultimate responsibility does not rest with one officer alone. It rests with the Council as a whole and ultimately through Cabinet as the decision making forum,

The Chair proposed that the Internal Auditors can review ongoing projects as part of their workplan.

### Recommendation 3

Councillor Collins asked regarding the Hastings Housing Company and how would the Council get its loans back if it was to fold? The Chief Finance Officer answered that the Hastings Housing company's assets could be sold to repay the debt.

Councillor Marlow-Eastwood asked regarding the summary findings and the strengthening of internal audit. The External Auditor explained that Orbis has a robust approach to risk management and have the resources to complete their work and that the Council using Orbis is a positive.

Councillor Patmore asked regarding more detailed reports and if the level information being given to Councillors is correct. The External Auditor explained the decision-making body should show strength to not make a decision if they don't feel they have been given sufficient information, sufficient depth of information, sufficient analysis or sufficient time.

The Chair asked regarding the Internal Auditors employed by Hasting Borough Council. The Chief Finance Officer answered there are two members of HBC staff who work alongside Orbis and that they solely focus on internal audit.

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### Recommendation 4

Councillor Sinden asked how to learn from the past events and if there is a survivable future? The External auditor answered the outlook is not promising for local Councils. The Chief Finance Officer explained that several pleas have been made to Government. Regular conversation has been had with the DLUHC to prevent the issuing of a section 114 notice.

Councillor Patmore asked regarding the Hastings Housing Company and how the Council has leant money to itself and now must pursue the money. The Chief Finance Officer explained that when the loan was set up it would have been with the intention of it paying itself and making a profit and there are regulations for PWLB borrowing that were followed.

Councillor Webb highlighted regarding the informal meetings that in 2022 there was a Labour and Green Cabinet. The External Auditor explained that formal meetings give transparency and gives Audit and Overview and Scrutiny an opportunity to review the decisions. Councillor Marlow-Eastwood asked if there are proposals to change the meeting to formal meetings. The External Auditor explained it is not for the External Auditor to explain how this would happen, it would be for officers to propose how that would work and for Councillors to decide. Councillor Patmore asked that Cabinet discussions are more robust.

### Recommendation 8:

Councillor Marlow-Eastwood asked if the recommendations have been implemented. The Chief Finance Officer answered that when the recommendations are reviewed next year the recommendations that are agreed with should be implemented.

### Recommendation 9:

Councillor Collins asked how to add independent members to the Audit Committee. The Chief Legal Officer answered that this would be passed to the Working Arrangement Group and changes to any the constitution will be reviewed. The External Auditor added it is a CIPFA recommendation to have independent members on the Audit Committee. The Chair proposed to research with other Councils about having independent members. Councillor Marlow-Eastwood highlighted if it is the External Auditors and CIPFA's recommendation then it should be followed.

### Recommendation 12:

Councillor Patmore asked about what has been completed to improve the conflicts of interest. The Chief Finance Officer explained procurement has been completely reviewed and aligned with other councils' approach. New guides and training have been given to staff and there are monthly meetings with the procurement hub.

Councillor Marlow Eastwood asked if the Council has a legal position because of conflicts of interest? The Chief Legal Officer answered that training is key and all contracts and commercial transactions will be now reviewed by the legal department.

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The plan going forward will be to engage with group leaders in relation to conflicts of interest of Councillors and potential breaches of the code of conduct. Councillor Patmore asked regarding the breach of procurement rules. The Chief Legal Officer explained the transaction happened before her employment with Hastings Borough Council and further due diligence should have been completed.

Follow up of previous recommendations:

Councillor Collins asked that given the scale of the financial sustainability and governance failures which have been outlined, why statutory recommendations report or a public interest report was not submitted. The External Auditor answered that it is felt it would be better to wait for the Council to set its 2024-25 budget as this is seen as a key milestone.

### **RESOLVED (unanimously)**

**Agree the recommendations contained in the External Auditors report.**

### **Reasons**

To Under Section 20(1)(c) of the Local Government Audit and Accountability Act 2014 the external Auditors have to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **10. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)**

None

(The Chair declared the meeting closed at. 7.41 pm)