

Audit Committee
1 DECEMBER 2021

Present: Councillors: Stuart Ritchie (Chairman), John Blackall (Vice-Chairman), Martin Boffey, Ruth Fletcher, Gordon Lindsay and Jack Saheid

Apologies: Councillors: James Wright

AAG/24 **MINUTES**

The minutes of the meeting held on 12 September were approved by the Committee as a correct record and were signed by the Chairman.

AAG/25 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/26 **ANNOUNCEMENTS**

The Chairman announced that the External Auditors had sent their apologies and the relevant items would be deferred to the next meeting of the Audit Committee.

Audit specific training for Members would take place either late in December 2021 or early January 2022.

AAG/27 **ANNUAL AUDIT LETTER**

RESOLVED

That the Annual Audit Letter be deferred to the next meeting of Audit Committee.

AAG/28 **ANNUAL GOVERNANCE STATEMENT**

The Director of Corporate Resources presented the Annual Governance Statement.

The annual review of the Council's governance, risk management and internal control arrangements had been completed earlier in the year leading to the production of the Annual Governance Statement for 2020/21. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement was correct as well as a review of the Council's Governance Framework against the best practice framework devised

by CIPFA/SOLACE. The Annual Governance Statement was approved at the Audit Committee on 20 July 2021.

This reported reviewed progress against the action plan.

The Committee noted the contents of the report.

AAG/29 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the Risk Management Quarterly Update to the Committee. The report included an update on the Corporate Risk Register for consideration and provided an update on progress with the quarterly departmental risk register reviews.

It was reported that there were five risks considered to be high:

CRR37 - Delay to plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result as significant / unexpected changes to government guidance.

CRR01c - Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.

CRR01b - Funding from Government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2021

CRR18 - (i) A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. The level of threat has been raised by the Cabinet Office to amber. (ii) IT not working due to environmental problems: fire, flood, power cut.

CRR19 - Ongoing reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims; leisure centres; property income; investment income.

Departmental risk registers had been reviewed and updated.

The Committee noted the contents of the report and relevant appendices.

AAG/30 **INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 (01/07/21 - 30/09/21)**

The Chief Internal Auditor provided a progress report of internal audits carried out during Q1 of 2021.

Of the four formal audits finalised during the quarter, two received an opinion of substantial assurance, one reasonable assurance and one partial assurance.

Formal follow up reviews would continue to be carried out for all audits where 'minimal assurance' opinions had been given and for higher risk areas receiving 'partial assurance'.

Following a recent service review meeting with the Director of Corporate Resources, it was suggested that action tracking could be relaxed for medium priority actions, which would bring Horsham into line with other organisations audited by Orbis Internal Audit.

RESOLVED

That the Committee note the internal audit report and approve the change to the action plan tracking process so that only high priority actions are tracked as detailed in the report. The chief internal auditor would still be allowed to carry out informal check-ups on medium priority action plans.

AAG/31 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS 2021/22**

The Group Accountant (Technical) presented the mid-year report for 2021/22.

During the period the Council had complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached.

Activity was in line with indicators apart from the indicator covering interest rate sensitivity where the value at the end of September exceeded the estimate. This was due to higher than projected cash balances.

At 30 September 2021, the Council had no external debt and its investments totalled £80m.

During the first half of 2021/22, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.48m was earned on investments at an average return of 1.3%.

Treasury investment income for the full year would likely be significantly above the budget as dividends have recovered whereas the budget had anticipated continued low dividend yields. Commercial property income had been recovering to some extent but some tenants had suffered during the pandemic and would potentially be unable to pay rents in full.

The Committee Noted the report.

AAG/32 **CAPITAL STRATEGY 2022/23 INCORPORATING INVESTMENT AND
TREASURY MANAGEMENT STRATEGY**

The Group Accountant (Technical) reported that the Capital Strategy for 2021/22 remained largely unchanged except for changes to the limits for money market funds and local authorities. Limits on money market funds would increase from £30m to £50m and the limit on individual local authority would increase from £4m to £5m

The investment strategy would also remain largely unchanged apart from increases in the service loans and overall commercial property portfolio limits. The limit on service loans would increase from £1.5m to £3m and the limit on overall commercial property would increase from £60m to £70m

The increase in loan value would enable lending to the Council's own Housing Company and the overall portfolio limit increase would help to cover the development of existing assets and provide headroom for possible upward revaluations of property values.

RESOLVED

That the Audit Committee approve the Capital Strategy as an appropriate overarching strategy for the Council while leaving the full Council to approve the updated capital strategy that will accompany the 2021/22 budget to Council.

RECOMMENDED TO FULL COUNCIL

- i) That the full Council approve the Treasury Management Strategy for 2021/22 and the associated limits and specific indicators included in section 4 and appendix B of the Capital Strategy 2021/22 incorporating Investment and Treasury Management Strategy report.
- ii) That the full Council approve the Investment Strategy for 2021/22 and the associated limits and specific indicators included in section 5 and appendix C of the Capital Strategy 2021/22 incorporating Investment and Treasury Management Strategy report.

REASONS

- i) The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) and Prudential Code which requires the Council to approve a Capital Strategy, Investment Strategy and Treasury Management Strategy before the start of each financial year.
- ii) The Department for Levelling Up, Housing and Communities (DLUHC) issued revised guidance on local authority investments in 2017 that the Council is required to have regard to.

AAG/33 **PROVISION OF THE EXTERNAL AUDIT OF THE ANNUAL ACCOUNTS**

The Director of Corporate Resources reported that the auditor appointment arrangements covered the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

PSAA was undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies would need to make important decisions about their external audit arrangements from 2023/24.

They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

The Director of Corporate Resources explained that current HDC audit arrangements were unsatisfactory due to problems with the timeliness of the audits and variability of price. Future audits would be more expensive whichever route Council chooses. The large audit firms have stated that timeliness would likely not improve.

If HDC were to arrange their own procurement, an auditor that could deliver the auditor on time could be found but would carry the risk that the Council would not be able to appoint an auditor meaning the Secretary of State would do so. This route would also incur a greater administrative burden.

If HDC were to go with the PSAA it would be unlikely to lead to any improvement.

The Director of Corporate resources recommended that HDC arrange their own procurement, despite the risks, because it might lead to a better outcome for the Council.

RECOMMENDATION TO COUNCIL

- i) The Council declines Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.
- ii) The Council instructs the officers to seek to establish an independent audit panel and refers the appointment of this Panel back to its February 2022 meeting.

REASONS

- i) There is a possibility the position with regards to the timeliness of the audit could improve with a local appointment and there appears to be little chance of this in joining the PSAA arrangements.
- ii) If the Council goes alone it must appoint an independent panel and then complete the procurement by 31 December 2022.

AAG/34 **URGENT BUSINESS**

There was no urgent business.

The meeting closed at 7.16 pm having commenced at 5.30 pm

CHAIRMAN