

Audit Committee
7 DECEMBER 2022

Present: Councillors: Stuart Ritchie (Chairman), John Blackall (Vice-Chairman), Matthew Allen, Martin Boffey, Paul Clarke, Richard Landeryou and Gordon Lindsay

Also Present: Tony Hogben

AAG/23 **MINUTES**

The minutes of the meeting held on 21 September were approved as a correct record and signed by the Chairman.

AAG/24 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations on interest.

AAG/25 **ANNOUNCEMENTS**

There were no announcements.

AAG/26 **EXTERNAL AUDIT CONTRACT 2023/24 - 27/28**

The Director of Resources reminded Members that in December 2021 Council had agreed not to opt into the national auditor appointment arrangements (Public Sector Audit Appointments) after 2022/23 but to undertake a local tender exercise instead. Despite market interest last year, no attractive bids had come forward.

The Director of Resources had therefore contacted the Department of Levelling Up, Housing & Communities requesting permission from the Secretary of State to return the Council into the PSAA. He advised that no response had been received, although PSAA were aware of this situation and awaiting instruction to return HDC to the fold; the external auditor confirmed that PSAA were currently finalising the appointments for the individual firms.

Councillor Stuart Ritchie, Chairman of the Committee, stated that he would write immediately, on behalf of the Council, chasing a response. If that were unsuccessful, another option would be to retender, but the committee was not confident that this would yield a different result.

AAG/27 **AUDIT RESULTS REPORT**

The External Auditor talked through the executive summary of the report, which set out Ernst Young's observations and conclusions. The audit was still work in progress, but key findings had been completed. No errors had been found and

it was anticipated there would be no issues needing action to be brought to the Council's attention. Members discussed the breach of the conditions in the Treasury Management Strategy set out in 1.12 of the report, when £5m was left in the current account over a weekend, exceeding the £2.5m limit, and noted the measures being taken to ensure this would not happen again.

It was noted that the valuation for the Council's 15.5% stake in Swan Walk had not been updated for 2021/22 due to the timing of information provided by the management agent. The Chairman advised that this valuation was being reassessed by the Council and would be confirmed by the end of January.

The External Auditor confirmed that valuation information regarding Swan Walk and Lintot Square would be emailed to the Director of Resources for circulation to Committee members and be added to the final report, especially if an amendment is required.

AAG/28 **STATEMENT OF ACCOUNTS**

The unaudited Statement of Accounts was received by the Committee. The Chairman advised that they had been considered in detail at an informal meeting ahead of the Committee where Members had had an opportunity to pose questions on the detail.

RESOLVED

To delegate approval of the Statement of Accounts to the Chairman of the Audit Committee, in consultation with the Director of Resources, to be signed once the audit has been completed.

AAG/29 **ANNUAL GOVERNANCE STATEMENT - ACTION PLAN 2022/23**

The Director of Resources talked through the action plan that listed areas for improvement that had been identified in the Annual Governance Statement from 2021/22.

Progress was now being made on the two items that had been behind schedule: the roll out of the Modern.gov report-writing management system, which would streamline the preparation of Cabinet and Committee reports; and training and awareness relating to the Council's management of bullying and harassment, with training for all Managers scheduled for December. Procurement training had also been delayed due to staffing issues, but this was now in hand.

The Committee noted the contents of the action plan.

AAG/30 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of 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.

There were four risks which were considered to be high, which were unchanged since the previous report to Audit Committee:

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

CRR01b - Funding from Government is less generous than assumed in the Medium- Term Financial Strategy (MTFS) from 2023

CRR18 - (i) A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. (ii) IT not working due to environmental problems: fire, flood, power cut.

CRR19 - Rapidly rising costs from inflation together with ongoing lower levels of income from fees in some areas, and other cost pressures such as increased homelessness; and increased housing benefit claims.

None of the other risks had changed. They included the potential loss of subsidy from the audit of the Housing Benefit claim, which was always a risk. All 19 Departmental risk registers had also been reviewed and updated.

Councillor Martin Boffey suggested that a new risk be added relating to the new legislation that will require voters to present photo ID in order to vote at the elections in May 2023. The Director of Resources stated that officers were aware of the emerging guidance and would look at how this could be measured as a risk, which was more reputational than financial.

The Committee noted the contents of the report and appendix.

AAG/31 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor provided a progress report of all internal audit and counter-fraud activity carried out during Quarter 2 of 2022/23.

He talked through the six formal audits, which were finalised during the quarter. One audit received an opinion of 'substantial assurance', four received an opinion of 'reasonable assurance', and one an opinion of 'partial assurance'. Members noted details in the appendix.

The Chief Internal Auditor advised that an independent external quality assessment of the Orbis internal audit service had been undertaken by the Institute of Internal Auditors in October/November. This showed the service to be fully compliant with the professional standards. A full report would be brought to the Committee in March. The Chairman thanked the Chief Internal Auditor for his hard work and diligence over the years.

The Committee noted the contents of the report.

AAG/32 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS**
2022/23

The Group Accountant (Technical) presented the mid-year report for 2022/23. The report analysed the various indicators set in the Treasury Management Strategy.

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 primarily due to higher than projected cash balances. At the end of September 2022, the Council had no external debt and its investments totalled £87.8m.

During the first half of 2022/23, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.662m was earned on investments at an average return of 1.5%.

Treasury investment income for the full year would likely be significantly above the budget as interest rates were significantly higher than those in the budget. Commercial property income approximately on budget for the year although the prospect of recession may affect the second half of the year.

The Chairman stated that the Capital Programme spend was subdued and this was a perennial issue caused by the difficulty Managers had in anticipating the delivery time of capital programmes, given that work schedules were often not in their control.

The Chairman requested for this to be taken into account when preparing the MTFS. The Director of Resources also agreed to look at whether it would be practical to allow for a level of probability to be attached to bids for Capital projects.

RESOLVED

- (i) To note the treasury management stewardship report at the mid-year 2022/23.
- (ii) To note the mid-year prudential indicators for 2022/23.

REASON

- (i) The mid-year report is a requirement of the Council's reporting procedures

- (ii) The report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

AAG/33 **CAPITAL STRATEGY 2023/24 INCORPORATING INVESTMENT AND TREASURY MANAGEMENT STRATEGY**

The Group Accountant (Technical) presented the report, which combined an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services, how the associated risks were managed and the implications for future financial sustainability. The annual strategy would be recommended to Council in February 2023.

The Chairman raised some questions regarding the uplift in limits for various investments with counterparties, as set out in Appendix B. These increases were to reflect inflation rates. He was assured by the Director of Recourses that operational procedures were in place to ensure that, should there be a decision to invest in a counterparty with a credit rating lower than AA, it would be properly and thoroughly scrutinised. Security of investments is prioritised over yield.

The Chairman questioned why the pooled funds were worth less than their original costs. He acknowledged they could increase again in the long term but suggested that the strategy regarding pooled funds be reviewed. The Director of Resources reminded the Committee that the income from the pooled funds had been much higher over the last three or four years than had been available in the banks and that any 'paper' loss would only be realised if the Council needed to sell the investments, and it doesn't intend to as they are long term investments.

After discussion it was AGREED:

- (i) that the Chairman of the Committee and Director of Resources analyse pooled funds income generated over the last four to five years, and data on how much the capital value and income have risen or fallen in that time.
- (ii) Subject to (i) above, and if deemed appropriate, to arrange an independent review of how the Council's pooled funds are invested.

RESOLVED

- (i) To approve this 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 2023/24 budget to Council.

- (ii) To recommend that the full Council approve the Treasury Management Strategy for 2023/24 and the associated limits and specific indicators included in section 4 and appendix B of this report.
- (iii) To recommend that the full Council approve the Investment Strategy for 2023/24 and the associated limits and specific indicators included in section 4 and appendix C of this report.

REASON

- (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 and Prudential Code for Capital Finance that require 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 2018 that the Council is required to have regard to.

AAG/34 **URGENT BUSINESS**

There was no urgent business.

The meeting closed at 7.10 pm having commenced at 5.30 pm

CHAIRMAN