

Audit Committee
29 MARCH 2023

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

Apologies: Councillors: Paul Clarke and Gordon Lindsay

AAG/35 **MINUTES**

The minutes of the meeting held on 7 December were approved as a correct record and signed by the Chairman.

AAG/36 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/37 **ANNOUNCEMENTS**

Councillor Stuart Ritchie, Chairman of the Committee, made three announcements:

- Both himself and Councillor John Blackall, Vice Chairman of the Committee, were standing down as Councillors in May, so this was their last meeting. He had thoroughly enjoyed the important work undertaken in this role and hoped whoever chaired this Committee in the future finds it as rewarding. He advised that until a new Chairman was in place, he would remain available to the Council if required.
- The issue of acquiring external auditors discussed at the last meeting had been resolved; HDC had successfully applied to the Department of Levelling Up, Housing & Communities (DLUHC) to return to the PSAA arrangements. This brought efficiency gains and he was pleased the matter had been resolved.
- The Director of Resources had prepared a paper on investment performance, which had been discussed at the previous meeting. Councillor Ritchie would consider this and share a summary with Committee members with a view to them deciding on future actions.

AAG/38 **2021/22 ANNUAL AUDIT REPORT**

Councillor Ritchie invited the external auditor to introduce the report. Elizabeth Jackson, Partner at Ernst Young, stated that the report was substantially complete and summarised the changes that had been made since the draft report had been considered at the December meeting.

There was a discrepancy of approximately £1m in the valuation by the external auditor and the Council of certain properties (leisure centres and operational buildings); this was not an error, but a different judgement on how these valuations were calculated. This discrepancy would not affect the Council's financial position, but would be noted in the report.

She went on to explain why the audit report could not be signed by the external auditor tomorrow as planned, and why it was necessary to extend the cash-flow assessment period from the end of March 2024 to June 2024. This delay was caused by a national issue regarding the triennial pension valuations, and local authority audits could not be signed until the National Audit Office resolved the issue.

Once resolved, Ernst Young would be able to sign and then the Council's statement of accounts could be adjusted and finalised. The external auditor was confident that the report could be signed before the District and Parish elections on 4 May, although this could not be guaranteed at this stage.

AAG/39 **STATEMENT OF ACCOUNTS AND LETTER OF REPRESENTATION**

Following the discussion on the previous item, the external auditor agreed that it would not be necessary for the accounts, once finalised, to return to Audit Committee for approval, given that the details in those accounts had been scrutinised in depth and the outstanding issue would not have an impact on the outturn or reporting to 31 March.

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 had been completed.

AAG/40 **FINANCIAL REPORTING AND AUDIT**

Councillor Ritchie stated that since 2015/16 the national audit completion rate had fallen from 97% to 12% in 2021/22. The difficulties that HDC had experienced when looking for an external auditor reflected this national picture and the DLUHC's current inquiry into financial reporting and audit was an opportunity to share this experience. He suggested that this information should be shared with the Institute of Chartered Accountants as well if their recent report called for evidence.

RESOLVED

- (i) To respond, via a letter from the Chairman of the Audit Committee on behalf of the Audit Committee, to the DLUHC inquiry before Monday 17 April 2023.

REASON

- (i) To provide evidence to help DLUHC Committee examine how local authority financial reporting could be improved to better engage with taxpayers and other stakeholders.

AAG/41 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor provided a progress report of internal audits carried out during Quarter 3 of 2022/23. Of the five formal audits finalised during the quarter, one received an opinion of 'substantial assurance' and four received an opinion of 'reasonable assurance'.

Details of the internal audit highlighted at the meeting included: Contract Management received 'reasonable assurance', which was an excellent outcome compared to previous years; Emergency Planning and Capitol Cultural Compliance had both previously received 'partial insurance' and had now improved to 'reasonable assurance'; and Payroll received 'substantial assurance'. The Chief Internal Auditor also confirmed that the RAG score for all performance indicators was green.

The Committee noted the contents of the report.

AAG/42 **INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2023/24**

The Chief Internal Auditor presented the Internal Audit Strategy and Annual Plan for 2023/24.

The strategy proposed an approach based on focusing audit resources in areas with the highest risk to the achievement of the Council's objectives. These areas had been identified and prioritised based on the Council's own risk assessment processes and following consultation with senior officers and Members.

In order to ensure audit and assurance activity would be focussed on supporting the delivery of the Council's priorities, the audit plan had taken into account the key corporate goals of the Council as set out within the Council's Corporate Plan.

RESOLVED

- (i) To approve the Council's Internal Audit Strategy and Annual Plan 2023/24.

REASON

- (i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).

- (ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/43 **INTERNAL AUDIT - EXTERNAL ASSESSMENT REPORT**

The Chief Internal Auditor advised that an independent external quality assessment of the Orbis internal audit service had been undertaken by the Chartered Institute of Internal Auditors in October/November. This showed the service to be fully compliant with the professional standards.

Councillor Ritchie stated that the report was a reflection of the high quality of work undertaken by Orbis and asked that his comments and thanks be passed to relevant officers.

AAG/44 **DRAFT ANNUAL GOVERNANCE STATEMENT 2022/23**

The Director of Resources reported that the annual review of the Council's governance, risk management and internal control arrangements had been undertaken to support the production of the Annual Governance Statement for 2022/23.

The Director of Resources drew attention to the Council's governance arrangements, as there had been some minor governance issues, as set out in Appendix A of the report. These were being addressed in the action plans to help achieve improvements.

The Action Plan for 2023/24 included some issues that had been actioned in 2022/23, but needed some further work to embed them into the Council's culture, namely the use of the modern.gov report-writing system and management of bullying and harassment. The Director of Resources highlighted the areas for improvement regarding Procurement, which were required because of new regulations being introduced later this year.

RESOLVED

- (i) To approve the draft Annual Governance Statement for 2022/2023.

REASON

- (i) As part of good governance, it is important that the Annual Governance Statement is approved by the Audit Committee.

AAG/45 **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.

It was reported that there were six risks considered to be high, as set out in 3.3 of the report, compared to four in the previous quarter: CRR17 Housing Benefit Subsidy claim had risen from amber to red; and CRR38 regarding the recruitment and retention of officers in some key service areas was a new red risk.

The Director of Resources advised that recruitment to specialist posts had become more difficult, but measures were being taken to retain and train existing staff. The success of the graduate trainee scheme was noted, although it was acknowledged that such schemes took time to bear fruit. He stated that the use of locums and interim staff was currently high because of these difficulties, largely caused by the pandemic and cost of living crisis. Councillor Ritchie suggested that the use of interim and temporary staff could be added to the risk management report. Councillor Boffey suggested officers also consider whether the impact from additional burdens from Government should also be reflected in the risk management report.

A new risk, CRR39, had been added regarding the new requirement for voter ID to be shown at the upcoming election. It was noted that Covid-19 infection had been removed from the risk register.

RESOLVED

That the contents of the report be noted.

REASON

As part of good governance, it is important that Members understand the key risks facing the Council.

AAG/46 **2021 - 2022 HOUSING BENEFIT AUDIT**

The Director of Resources advised that the audit of the 2021/22 Housing Benefit subsidy claim had been completed in March and identified that errors were likely to exceed the lower threshold after which the Council will lose subsidy, with a likely loss of £65,416.

This was caused by errors identified internally and also in the 2021/22 audit undertaken by KPMG where significant and complex testing was undertaken.

The Director of Resources stated that the department had been under a constant and significant pressure over the last three years. This was for a number of reasons including last minute Government changes to business rates, caseloads increasing, and distribution of additional Government grants exceeding £50m, they had been required to process during and after the pandemic. He also advised that a higher level of temporary staff had added to the challenge, following experienced staff leaving during the pandemic and the service was finding it difficult to recruit and retain staff, therefore using temporary staff as cover, which brought with it a higher risk of a reduction in

quality. In addition, higher levels of quality assurance checking was identifying more errors.

Members discussed the pressures on the Revs and Bens team and noted the range of measures being put in place to address the challenges facing the team. The Director of Resources reminded Councillors that the improving quality measures might take some time to feed through, such that there was a high probability that further subsidy might be lost in 2022/23 as well.

RESOLVED

To note (a) the expected loss of subsidy that has been identified in the audit of the 2021-22 Housing Benefit claim, and, (b) the measures being taken to improve the process and reduce errors in the future.

REASON

To make the Audit Committee aware of the subsidy loss and the measures taken to reduce the risk of future subsidy loss.

AAG/47 **URGENT BUSINESS**

There was no urgent business. Councillor Ritchie closed the meeting by thanking Committee members, and stating that they had been very well served by officers with a high degree of professionalism. Members thanked Cllr Ritchie for his work as Chairman of the Committee.

The meeting closed at 6.40 pm having commenced at 5.30 pm

CHAIRMAN