

MINUTES
OF A MEETING OF THE
STANDARDS AND AUDIT COMMITTEE

held on 6 July 2023

Present:

Mrs C Storey (Chairman)
Cllr A Caulfield (Vice-Chair)

Cllr H Akberali Cllr S Greentree
Cllr J Brown Cllr S Oades
Cllr G Cosnahan

1. MINUTES

RESOLVED

That the minutes of the meetings of the Committee held on 2 March and 22 May 2023 be approved and signed as true and correct records.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Kevin Foster.

3. DECLARATIONS OF INTEREST

In accordance with the Officer Employment Procedure Rules, the Strategic Director - Communities, Louise Strongitharm declared a disclosable personal interest (non-pecuniary) in any items concerning the companies of which she is a Council-appointed director. The interests were such that Mrs Strongitharm could advise on those items.

4. URGENT BUSINESS

There were no items of Urgent Business.

5. INTRODUCTORY BRIEF FROM GRANT THORNTON LLP, THE INCOMING EXTERNAL AUDITOR FROM 2023/24

The Chairman welcomed Guy Clifton, Director in Public Assurance from Grant Thornton, to the meeting, who advised that Grant Thornton was delighted to have been appointed the Council's External Auditor from the 2023/24 financial year. Guy was attending the meeting to provide an introductory brief on the value for money framework and governance review taking place.

Guy advised that the current Code of Audit Practice was set by the National Audit Office every five years, with the most recent version being approved in 2020. The Code provided

for Auditors to prepare a commentary in their annual report on the arrangements in place with three broad areas of focus: Financial Sustainability, Governance and the Three E's (Economy, Efficiency and Effectiveness) for inclusion in the Auditor's Annual Report (AAR). The auditing work would begin following the conclusion of the current financial year.

The Committee was advised that the Code required prompt reporting for any areas of key risk or weakness identified. Under this part of the Code, the Council had commissioned Grant Thornton to carry out a Value for Money Governance Review, for which the Terms of Reference had been finalised and would be forwarded to the Committee shortly. The Key Lines of Inquiry included decisions and timelines relating to the Council's Investment Strategy; the governance of those decisions; the effectiveness of their scrutiny; the arrangements around the implementation of the Strategy such as adopted business cases and investment structures such as subsidiaries or joint ventures; planning assumptions around the Strategy; and the monitoring and reporting of the Strategy.

The Review would be complex and as it progressed could require an extension to those Key Lines of Enquiry. The first step would be a document review following which meetings with key stakeholders would be held and lead to the reporting stage, expected to be completed from the end of August. Depending on the outcomes, the Auditor could be obliged to use its powers such as statutory recommendations which would require debate in public within a period of one month. A more significant reporting power was stated to be a public interest report which related to a higher level of risk and would need to be considered by Full Council.

The Committee welcomed the introductory briefing, noting that the timeframes for the Value for Money review were set out in the Terms of Reference; and that the regular progress updates would be held with the Chief Executive and Section 151 Officer leading to a report being received by the Committee at the close of the Review, with an interim report if need be. An update would be received at the next meeting of the Committee in September.

The Chairman thanked Guy for his informative update.

6. UPDATE ON EXTERNAL AUDIT STA23-010

The Chairman welcomed Steve Bladen, the Council's lead Auditor and Ryan Ferguson, Head of Local Audit, from BDO to the meeting. The Committee received an update on the 2019/20 External Audit from BDO, noting that Commissioners had been appointed by the Government and a Section 114 Notice issued since the last meeting. Steve advised that the report outlined the financial challenges for the Council and its financial statements due to prior period adjustments to the Accounts being required. The report set out the areas of audit activity such as the Council's subsidiaries, Minimum Revenue Provision (MRP) and loans to third parties. Steve stated that the Audit was close to completion, with BDO awaiting the Council's intention on its approach to carrying out the prior period adjustments.

The Chairman stated that it was clear that the Council not having received the benefit of an Audit Opinion since the 2018/19 accounts was having an adverse impact on the Council, and there had been little progress in recent months which could have contributed to a clearer picture of the financial position at an earlier stage. She stated that the Council would need to take a view of the accounting amendments required and would need assurance from BDO that the Audit would be concluded in a timely manner.

Brendan Arnold, Interim Director of Finance / Section 151 Officer, stated that from an auditing perspective when reviewing accounts there was more than one source of assurance from which an Auditing Opinion could be made. Due to the Council's previous approach to MRP, the Accounts would have included a negative balance likely prior to 2018/19. On the basis that it was clear that the Accounts were at high risk of a qualified Opinion, the prior period adjustments should not delay the Opinion and conclusion of the Audit. Steve stated that BDO were awaiting confirmation of the Council's intentions and that the Accounts would not represent a true and fair view until that time. It was noted that the adjustments could involve the 2018/19 Accounts being restated.

Following questions by Brendan over whether there was a risk of BDO auditing its own work as the last Opinion was stated for 2018/19 and whether BDO would note any errors in its work by not notifying the Council of the General Fund balance earlier, Ryan stated that restating financial accounts was not uncommon with no actual risk of BDO auditing its own work. Ryan added that Steve had not been involved in the 2018/19 Audit and it was the responsibility of the Council to provide financial statements.

Members felt that with the benefit of hindsight if the delays in the Audit had not occurred the current financial issues could have been identified earlier, although it was noted that BDO had been unable to secure the working papers of the past subsidiary auditor, Hamlyns. The possibility of a complete re-Audit was not an affordable option for the Council. It was stated that a complaint raised by a resident regarding MRP had been accepted by BDO as an objection to the Accounts. The issue of MRP had been acknowledged by the Council in its seeking of a legal Opinion, however the Committee did not accept that BDO had stated previously that it had disagreed with the past policy on MRP. The Audit Letter from 2018/19 had only recommended that the Council review its MRP policy against the guidance.

Following a question by the Chairman, Brendan advised that work was continuing to ensure the loan documentation history to the Council's subsidiaries was complete and assess their recoverability, which should be completed by August. Consideration was being given as to the prior period adjustments, however he stated that he felt a low level of confidence in BDO completing the Audit soon afterwards based on past levels of activity. He urged BDO to consider the views expressed at the meeting and how it could provide the contracted Audit service the Council desperately needed.

Members reiterated their concerns over the delays of the Audit, the report before the Committee and effect on local residents. The Chairman noted the report before the Committee along with BDO's request for the Council to look at the past accounts adjustments, and that the work would result in the Council having a deficit and a qualified Opinion.

RESOLVED

That the update be noted.

7. INTERNAL AUDIT ANNUAL REPORT 2022/23 STA23-009

The Committee received the Internal Audit Annual Report 2022/23 which contained the Head of Internal Audit annual assurance opinion on the control environment of the Council based on internal audit work undertaken during the 2022/23 financial year.

Graeme Clarke of Mazars introduced the report and stated that all planned audits had been delivered although a few had not reached the final report stage as yet. Note had been

taken of the Council's Section 114 Notice and the recent commentary from the Department of Levelling Up, Housing and Communities on the control environment. Around half of the audits had received limited assurance with one classed as unsatisfactory, with an increasing number of average recommendations being made over the past few years. Overall, the Opinion had been set as unsatisfactory, reduced from moderate the previous year.

The Chairman stated that the tone of the report had changed markedly and asked whether previous years' plans had been correctly focused. Graeme explained that the content of each year's programme varied following consultation with stakeholders including the Corporate Leadership Team. The 2022/23 Plan had focused on areas whereby there could be a greater level of concern, for example the gas servicing audit. Brendan expressed uneasiness over the unsatisfactory rating and noted the lower level of audit work relating to financial systems. Graeme added that the financial systems were included on a cyclical reviewing basis to provide an overall health check of key controls.

It was noted that Audits for Thamesway and Victoria Square had been deferred since the 2021/22 Plan and there would need to be strong focus going forward on the extraordinary risks highlighted by the non-statutory DLUHC Rapid Review. Brendan added that the Grant Thornton Value for Money Review would be a key tool for understanding those risks and that officers would work with the Internal Audit Opinion to seek to improve the rating in the future.

RESOLVED

That the annual assurance opinion of the Head of Internal Audit over the control environment be noted.

8. HALE END COURT - AUDIT OUTCOME STA23-006

Louise Strongitharm, Strategic Director – Communities, introduced the report containing the audit outcome of Hale End Court from Homes England. Louise advised that in July 2020 Investor Partner Status was secured with Homes England for secured funding of £2m towards affordable extra care homes at Hale End Court. Following a compliance audit requested by Homes England, four breaches had been identified; three of which were classed as high and one of which was classed as low. The two main learning points were that rents should have been updated as they had changed during the two year term of the project, and practical completion claims should have been submitted for the grant awards at the correct time.

The Chairman stated that the report made for sombre reading and it appeared that there could have been some failings in project management, adding that it was vital for the lessons learnt to be incorporated into day to day practice. Louise advised that the Council's full project management process had been followed.

It was agreed that a further brief report would be received at the next meeting of the Committee setting out reflections on how the learning points were being applied more broadly within the Council.

RESOLVED

That (i) the Homes England Audit Report, as attached to the report, be accepted;

- (ii) the Strategic Housing and Development Manager be authorised to officially sign off the report with Homes England; and
- (iii) a further brief report would be received at the next meeting of the Committee setting out reflections on how the learning points were being applied within the Council.

9. DRAFT BUDGET TIMETABLE STA23-011

The Committee received a report on the draft timetable for both the 2023/24 revised Budget and the 2024/25 Budget. Brendan introduced the report and stated that the meeting of Full Council on 28 September 2023 would identify savings following the public engagement consultation on service choices and preferences in July and August that would have a full impact for the 2024/25 financial year, which would be agreed at the usual Full Council meeting in February 2024. Both of these meetings would have detailed and rigorous scrutiny in advance to maximise the challenge and stress testing of the proposals. The Executive meeting on 14 September 2023 would receive the draft Budget. The views of the Committee were sought on the draft budget timetable.

The Chairman supported the clear path towards producing the budget. The Chairman of the Overview and Scrutiny Committee, Councillor Josh Brown, stated that the members of the Standards and Audit Committee would be invited to attend the meeting of the Overview and Scrutiny Committee. The three day period between this meeting and the Executive was noted.

RESOLVED

- That (i) the proposed budget timetable for the revised 2023/24 budget and the 2024/25 budget be received; and
- (ii) the proposed timetable contained sufficient assurance regarding review and challenge activities.

10. REGISTRATION OF INTERESTS FOR MEMBERS ELECTED IN 2023 STA23-008

RESOLVED

That the registration of the interests of the Members newly-elected in May 2023 be noted.

11. STANDARDS AND AUDIT COMMITTEE - WORK PROGRAMME STA23-007

The draft Work Programme for the year ahead was received and it was noted that any suggestions from members of the Committee would be welcome. It was noted that a briefing session from Grant Thornton on the local audit and the value for money work was being planned to be held on the same day as the next meeting of the Committee, beginning around forty-five minutes beforehand.

RESOLVED

That the work programme be received.

The meeting commenced at 7.00 pm
and ended at 9.00 pm

Chairman: _____

Date: _____